85-1178

Supreme Court, U.S.
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No. ____

IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

CHATTEM, INC., A CORPORATION,

Petitioner,

v.

WESLEY T. BAILEY,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

CHATTEM, INC.
Petitioner

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QUESTIONS PRESENTED FOR REVIEW

1. Whether the Tenth Amendment of the United States Constitution and principles of federalism prohibit the Federal Government from vesting subject matter jurisdiction over state law diversity actions in an Article I court system pursuant to provisions of the Federal Magistrates Act, 28 U.S.C. §636(c)(1) et seq.?

2. Whether the provisions of 28 U.S.C. §636(c) are unconstitutional because they violate the separation of powers doctrine?

PARTIES TO THE PROCEEDINGS BELOW

The parties to the proceedings in the court whose judgment is sought to be reviewed are:

Defendant-Appellant is Chattem, Inc.

Plaintiff-Appellee is Wesley T. Bailey

Pursuant to Sup. Ct. Rules 28.1 and 28.4(b), Petitioner certifies that it is an independent corporation with no subsidiaries which are not wholly owned and that the provisions of 28 U.S.C. §2403(a) may be applicable. No court below has certified to the Attorney General the fact that the constitutionality of an Act of Congress was drawn in question.

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PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Petitioner, Chattem, Inc., prays that a Writ of Certiorari issue to review the judgment and opinion of the United States Court of Appeals for the Sixth Circuit entered October 16, 1985.

OPINIONS BELOW

The following opinions and orders of the lower courts are included in the Appendix to the Petition:

1. Opinion of the United States Court of Appeals for the Sixth Circuit rendered October 16, 1985 (not reported).

2. Opinions of the United States Magistrate Court for the Eastern District of Tennessee, Southern Division rendered on May 26, 1983 and January 31, 1984 (not reported).

3. Opinion of the United States Court of Appeals for the Sixth Circuit, rendered on August 3, 1982 [reported at 684 F.2d 386 (1982)].

JURISDICTION

The opinion and judgment of the Court of Appeals was entered on October 16, 1985. Jurisdiction to review the judgment of the Court of Appeals is conferred on this Court by 28 U.S.C. §1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

U.S. Constitution, Article III, Section 1 provides:

> The judicial Power of the United States, shall be vested in one supreme Court, and in such inferior Courts as the Congress may from time to time ordain and establish. The Judges, both of the supreme and inferior Courts, shall hold their Offices during good Behaviour, and shall, at stated Times, receive for their Services, a Compensation, which shall not be diminished during their Continuance in Office.

U.S. Constitution, Article III, Section 2, Clause 1 provides:

> The judicial Power shall extend to all Cases, in Law and Equity, arising under this Constitution, the Laws of the United States, and Treaties made, or which shall be made, under their Authority;--to all Cases affecting Ambassadors, other public Ministers and Consuls;--to all Cases of admiralty and maritime Jurisdiction;--to Controversies to which the United States shall be a Party;--to Controversies between two or more States;--between a State and Citizens of another State;--between Citizens of different States;--between Citizens of the same State claiming Lands under Grants of different States, and between a State, or the Citizens thereof, and foreign States, Citizens or Subjects.

U.S. Constitution, Amendment 10 provides:

> The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.

28 U.S.C. §631 provides in relevant part:

> (a) The judges of each United States district court and the district court of the Virgin Islands shall appoint United States magistrates in such numbers and to serve at such locations within the judicial district as the conference may determine under this chapter. In the case of a magistrate appointed by the district court of the Virgin Islands, this chapter shall apply as though the court appointing such magistrate were a United States district court. Where there is more than one judge of a district court, the appointment, whether an orig-

inal appointment or a reappointment, shall be by the concurrence of a majority of all the judges of such district court, and when there is no such concurrence, then by the chief judge. Where the conference deems it desirable, a magistrate may be designated to serve in one or more districts adjoining the district for which he is appointed. Such a designation shall be made by the concurrence of a majority of the judges of each of the district courts involved and shall specify the duties to be performed by the magistrate in the adjoining district or districts.

(e) The appointment of any individual as a full-time magistrate shall be for a term of eight years, and the appointment of any individuals as a part-time magistrate shall be for a term of four years. . . .

(i) Removal of a magistrate during the term for which he is appointed shall be only for incompetency, misconduct, neglect of duty, or physical or mental disability, but a magistrate's office shall be terminated if the conference determines that the services performed by his office are no longer needed. Removal shall be by the judges of the district court for the judicial district in which the magistrate serves; where there is more than one judge of a district court, removal shall not occur unless a majority of all the judges of such court concur in the order of removal; and when there is a tie vote of the judges of the district court on the question of the removal or retention in office of a magistrate, then removal shall be

only by a concurrence of a majority of all the judges of the council. In the case of a magistrate appointed under the third sentence of subsection (a) of this section, removal shall not occur unless a majority of all the judges of the appointing district courts concur in the order of removal; and where there is a tie vote on the question of the removal or retention in office of a magistrate, then removal shall be only by a concurrence of a majority of all the judges of the council or councils. Before any order or removal shall be entered, a full specification of the charges shall be furnished to the magistrate, and he shall be accorded by the judge or judges of the removing court, courts, council, or councils an opportunity to be heard on the charges.

28 U.S.C. §634 provides in relevant part:

(a) Officers appointed under this chapter shall receive as full compensation for their services salaries to be fixed by the conference pursuant to section 633 of this title, at rates for full-time and part-time United States magistrates not to exceed rates determined under section 225 of the Federal Salary Act of 1967 (2 U.S.C. 351-361) as adjusted by section 461 of this title except that the salary of a part-time United States magistrate shall not be less than $100 nor more than one-half the maximum salary payable to a full-time magistrate. In fixing the amount of salary to be paid to any officer appointed under this chapter, consideration shall be given to the average number and the nature of matters that

have arisen during the immediately preceding period of five years, and that may be expected thereafter to arise, over which such officer would have jurisdiction and to such other factors as may be material. Disbursement of salaries shall be made by or pursuant to the order of the Director.

(b) Except as provided by section 8344, title 5, relating to reductions of the salaries of reemployed annuitants under subchapter III of chapter 83 of such title and unless the office has been terminated as provided in this chapter, the salary of a full-time United States magistrate shall not be reduced, during the term in which he is serving, below the salary fixed for him at the beginning of that term.

28 U.S.C. §636(c) provides in relevant part:

(c) Notwithstanding any provision of law to the contrary --

(1) Upon the consent of the parties, a full-time United States magistrate or a part-time United States magistrate who serves as a full-time judicial officer may conduct any or all proceedings in a jury or nonjury civil matter and order the entry of judgment in the case, when specially designated to exercise such jurisdiction by the district court or courts he serves. Upon the consent of the parties, pursuant to their specific written request, any other part-time magistrate may exercise such jurisdiction, if such magistrate meets the bar membership requirements set forth in

section 631(b)(1) and the chief judge of the district court certifies that a full-time magistrate is not reasonably available in accordance with guidelines established by the judicial council of the circuit. When there is more than one judge of a district court, designation under this paragraph shall be by the concurrence of a majority of all the judges of such district court, and when there is no such concurrence, then by the chief judge.

(2) If a magistrate is designated to exercise civil jurisdiction under paragraph (1) of this subsection, the clerk of the court shall, at the time the action is filed, notify the parties of their right to consent to the exercise of such jurisdiction. The decision of the parties shall be communicated to the clerk of court. Thereafter, neither the district judge nor the magistrate shall attempt to persuade or induce any party to consent to reference of any civil matter to a magistrate. Rules of court for the reference of civil matters to magistrates shall include procedures to protect the voluntariness of the parties' consent.

(3) Upon entry of judgment in any case referred under paragraph (1) of this subsection, an aggrieved party may appeal directly to the appropriate United States court of appeals from the judgment of the magistrate in the same manner as an appeal from any other judgment of a district court. In this circumstance, the consent of the parties allows a magistrate

designated to exercise civil jurisdiction under paragraph (1) of this subsection to direct the entry of a judgment of the district court in accordance with the Federal Rules of Civil Procedure. Nothing in this paragraph shall be construed as a limitation of any party's right to seek review by the Supreme Court of the United States.

(6) The court may, for good cause shown on its own motion, or under extraordinary circumstances shown by any party, vacate a reference of a civil matter to a magistrate under this subsection.

STATEMENT OF THE CASE

Respondent, a consultant, filed a multiple count common-law action against the Petitioner on February 27, 1979, in the United States District Court for the Eastern District of Tennessee, Southern Division. Jurisdiction over the action was predicated solely upon diversity of citizenship under 28 U.S.C. §1332(a)(1). Respondent's suit charged Petitioner with fraud and the breach of various contractual obligations.

Petitioner denied Respondent's allegations and filed a counterclaim. On October 16, 1979 the parties agreed to the entry of a Stipulation of Reference which transferred the trial of the action to the United States Magistrate Court for the Eastern District of Tennessee, Southern Division. The Stipulation provided that any appeal would be to the United States District Court in the event of a bench trial and to the United States Court of Appeals for the Sixth Circuit in the event of a jury trial.

An order amending the Stipulation of Reference was entered on February 11, 1980. The amending order reflected the 1979 amendments to the Federal Magistrates Act, 28 U.S.C. §636(c)(1), et seq., which had become effective on October 1, 1979, just prior to the filing of the original Stipulation of Reference. Upon filing of the amending order, trial commenced in the United States Magistrate Court with the Honorable Roger M. Dickson presiding before a jury.

Following a five (5) day trial, the jury returned a verdict in favor of the Respondent in the amount of $650,000. The jury also denied Petitioner's counterclaim, and judgment was entered accordingly. Petitioner filed post-trial motions seeking judgment notwithstanding the verdict or, in the alternative, a new trial. The Magistrate denied Petitioner's request for a judgment notwithstanding the verdict, but conditioned the denial of a new trial on the Respondent's acceptance of a remittitur. Respondent accepted the offer of a remittitur and an amended judgment was entered by the Magistrate against the Petitioner for $502,000.

Petitioner then appealed to the United States Court of Appeals for the Sixth Circuit. On appeal, the judgment was affirmed as to liability, and as to a portion of the damages. The case was remanded with instructions for a redetermination of the bulk of compensatory damages which had been awarded. After remand, the Magistrate again resumed jurisdiction over the action. On motion of the Respondent, the Magistrate entered a partial final judgment against Petitioner in the amount of $124,440. This partial final judgment was voluntarily satisfied by Petitioner in lieu of execution.

With the case pending for retrial following the remand, Petitioner filed a motion on February 18, 1983 under Rule 60(b)4, F.R.C.P., to vacate the partial final judgment as void for want of supporting subject matter jurisdiction. Petitioner's motion argued that the provisions of the Federal Magistrates Act violated the requirements of Article III. This was the first time that Petitioner had challenged the constitutionality of the Act, and it preceded by approximately five (5) months the decision of the Ninth Circuit panel which first held the Act unconstitutional.[1]

Accompanying the Rule 60(b)4 motion was a companion motion which sought to withdraw Petitioner's prior consent to trial in the United States Magistrate Court to the extent that such consent was then being used to justify further proceedings before the Magistrate. Magistrate Dickson, upon filing of the companion motion, advised the parties that he would defer ruling on the Rule 60(b)4 motion until determination of the companion motion by the District Court. The Honorable Virgil Pittman, United States District Judge, Senior Status, sitting by designation from the Southern District of Alabama, denied the companion motion on April 22, 1983, noting in his order of that date the absence of a regular district judge for the district following the death of the Honorable Frank W. Wilson. Judge Pittman's order directed the Magistrate to proceed with the retrial and the determination of Petitioner's Rule 60(b)(4) motion.

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[1]*Pacemaker Diagnostic Clinic of America, Inc. v. Instromedix, Inc.*, 712 F.2d 537 (9th Cir. 1983), decided August 5, 1983, was the first reported decision to focus on the constitutionality of the provisions of 28 U.S.C. §636(c). The decision was later reversed in an en banc decision of the Ninth Circuit reported at 725 F.2d 537 (9th Cir. 1984).

The Magistrate denied Petitioner's Rule 60(b)(4) motion and affirmed the constitutionality of the provisions of 28 U.S.C. §636(c)(1) et seq. Continuing efforts on the part of Petitioner to block the Magistrate from attempting to exercise Article III diversity jurisdiction went for naught as the district court denied Petitioner's request for certification of an interlocutory appeal on Judge Pittman's order, and the Sixth Circuit denied a Petition for a Writ of Prohibition on July 29, 1983.

A new trial, limited to a determination of compensatory damages on Respondent's common law action for promissory fraud, commenced in the United States Magistrate Court on August 1, 1983, with the Honorable Roger M. Dickson again presiding before a jury. After another five (5) day trial, the jury returned a verdict in favor of the Respondent in the amount of $627,000, and the Magistrate entered judgment accordingly. Following a long delay, Petitioner's post-trial motions for judgment notwithstanding the verdict or a new trial were denied by the Magistrate only minutes before he left office to return to private practice.

Petitioner then appealed to the United States Court of Appeals for the Sixth Circuit. The appeal was consolidated by order of the court with an earlier appeal which Chattem had filed in connection with the denial of its Rule 60(b)4 motion. After expressing concern about an action coming up on appeal a second time, on October 16, 1985 the Sixth Circuit entered an unsigned per curiam opinion, marked not for publication, which summarily affirmed the judgments underlying both appeals.

Magistrates under the Federal Magistrates Act lack life tenure and are instead appointed only for terms of four or eight years. 28 U.S.C. §631(e). They may be removed from office if the judicial conference determines that their services are no longer needed. 28 U.S.C. §631(i). And while Congress has provided current assurances against a reduction in salary, 28 U.S.C. §634, that statutory assurance is not constitutionally guaranteed. As empowered by the Act, the Magistrate in this case presided over the voir dire, ruled upon the evidence, instructed the jury as to the law of the case, received the verdict, ordered judgment and decided the post-trial motions.

REASONS FOR GRANTING THE WRIT

1. This Case Presents Important Questions of Constitutional Law Involving Both Principles of Federalism and Separation of Powers

In this case a federal court of appeals has decided an important question of constitutional law which has not been, but which should be, decided by this Court. For almost 200 years federal courts have been considered courts of limited jurisdiction whose Article III powers must be exercised by judges with life tenure and a salary free from the possibility of reduction. These fundamental constitutional principles have been abandoned in this case and in the decisions of the other circuits which have affirmed the constitutionality of the provisions of 28 U.S.C. §636(c)(1) et seq.[2]

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[2]*Goldstein v. Kelleher*, 728 F.2d 32 (1st Cir. 1984), cert. denied ___U.S. ___, 105 S.Ct. 172 (1984); *Collins v. Foreman*, 729 F.2d 108 (2nd Cir. 1984), cert. denied ___U.S. ___, 105 S.Ct. 218 (1984); *Wharton-Thomas v. United States*, 721 F.2d 922 (3rd Cir. 1983); *Puryear v. Ede's Ltd.*, 731 F.2d 1153 (5th Cir. 1984);

There are "special and important reasons" for a review on a writ of certiorari of this decision (Sup.Ct. R.17). The establishment of an Article I court system to decide purely state law matters reaches the heart of federal and state relations and violates the Tenth Amendment. Moreover, the ability of Congress to transfer purely Article III powers to an Article I court system establishes a constitutional principle which carries a profound impact upon the separation of powers and the administration of justice under the federal court system.

The decision below is in conflict with a long line of this Court's decisions beginning with Chief Justice John Marshall's opinions in *Marbury v. Madison*, 5 U.S. (1 Cranch) 137, 2 L.Ed. 60 (1803) and *Hodgson v. Bowerbank*, 9 U.S. (5 Cranch) 303, 3 L.Ed. 108 (1809). More particularly, the decision is in conflict with the decisions of this Court in *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, 458 U.S. 50 (1982); *Insurance Corp. of Ireland Ltd. v. Campagnie des Bauxites de Guinea*, 456 U.S. 694 (1982); *United States v. Raddatz*, 447 U.S. 667 (1980); *Glidden v. Zdanok*, 370 U.S. 530 (1962) and *Erie Railroad Co. v. Tompkins*, 304 U.S. 64 (1938).

Judge Posner from the Seventh Circuit and Judge Arnold from the Eighth Circuit have written:

Geras V. Lafayette Display Fixtures, Inc., 742 F.2d 1037 (7th Cir. 1984); *Lehman Brothers Kuhn Loeb, Inc. v. Clark Oil & Refining Corp.*, 739 F.2d 1313 (8th Cir. 1984) (en banc), cert. denied ___U.S. ___, 105 S.Ct. 906 (1985); *Pacemaker Diagnostic Clinic of America, Inc. v. Instromedix, Inc.*, 725 F.2d 537 (9th Cir. 1984 en banc); *Fields v. Washington Metropolitan Area Transit Authority*, 743 F.2d 890 (D.C. Cir. 1984); and *D. L. Auld Co. v. Chroma-Graphics*, 753 F.2d 1029 (Fed. Cir. 1985), cert denied ___U.S. ___, 106 S.Ct. 83 (1985).

> "Maybe section 636(c) is a small violation of the Constitution. But the time to deal with this small violation is now, before it sends down roots. I doubt the utility of my brethren's suggestion that the 'balance of constitutionality' may some day 'mov[e] against the magistrate system' if long waits for trials before Article III judges coerce more and more litigants to accept trial by magistrate. It will be harder to enforce the Constitution against the excesses of the magistrate system when magistrates try 10 or 20 or 50 percent of the motion's federal trials --" *Geras v. Lafayette Display Fixtures*, 742 F.2d 1037, 1054 (7th Cir. 1984) (Posner, J, dissenting).

> "In the face of the increasing weight of authority [the decisions of the other circuits], it requires more than the normal amount of temerity to disagree. Nevertheless. . .the issue seems to me so clear and simple, *so basic to the whole theory of a written constitution interpreted by independent judges. . .*" *Lehman Brothers Kuhn Loeb, Inc. v. Clark Oil & Refining Corp.*, 739 F.2d 1313, 1319 (8th Cir. 1984) (Arnold, J. dissenting). (emphasis added)

These opinions are particularly significant at this time because future challenges may be chilled as a result of the decision of at least one circuit to penalize a litigant for challenging the constitutionality of the Act. See *D. L. Auld Co. v. Chroma-Graphics*, 753 F.2d 1029 (Fed. Cir. 1985), cert. denied ___ U.S. ___, 106 S.Ct. 83 (1985).

2. The Tenth Amendment and Principles Of Federalism Preclude the Federal Government from Establishing an Article I Court System to Decide Purely State Law Matters

Article III provides that the judicial powers of the United States "shall be vested in one supreme Court and in such inferior Courts as Congress may from time to time ordain and establish." Article III, §1. Concomitantly, Article III provides:

> "The Judges, both of the supreme and inferior Courts shall hold their Offices during good Behaviour and shall, at stated Times, receive for their Services, a Compensation which shall not be diminished during their Continuance in Office." Article III, §1.

This Court, in the course of declaring §241(a) of the Bankruptcy Act of 1978, 28 U.S.C. §1471 unconstitutional, has stated that the inexorable command of these constitutional provisions is that the judicial powers of the United States must be exercised by those judges having life tenure and a salary not subject to reduction. *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, supra at 58-60.

There are also a number of interrelated principles respecting the exercise of Article III power which flow from the concept of limited jurisdiction established by Chief Justice Marshall's opinions in *Marbury v. Madison*, supra, and *Hodgson v. Bowerbank*, supra. As this Court noted more recently in *Insurance Corp. of Ireland Ltd. v. Campagnie des Bauxites de Guinea*:

> "Subject matter jurisdiction, then, is an Article III as well as a statutory requirement;

> *it functions as a restriction on federal power, and contributes to the characterization of the federal sovereign.* Certain legal consequences directly follow from this. For example, no action of the parties can confer subject matter upon a federal court. Thus the consent of the parties is irrelevant [citation omitted], principles of estoppel do not apply [citation omitted], and a party does not waive the requirement by failing to challenge jurisdiction early in the proceedings ...*The rule, springing from the nature and limits of the judicial power of the United States, is inflexible and without exception,* which requires this court, of its own motion, to deny its jurisdiction, and in the exercise of its appellate power, that of all other courts of the United States, in all cases where such jurisdiction does not affirmatively appear in the record." 456 U.S. at 702. (emphasis added)

These restrictions simply cannot be ignored when the case is before an arm of the Federal government solely by reason of the diversity clause of Article III. *Glidden v. Zdanok*, supra at 537-538.

Glidden involved an action where the Petitioners challenged the Article III status of the judges who had participated in their cases for the first time on appeal. The Solicitor General for the United States argued that the petitioners should not be permitted to question on appeal the Article III status of the judges who had participated in their cases because of the de facto doctrine which states:

> ". . .as well settled that where there is an office to be filled and one, acting under color

> of authority, fills the office and discharges its duties, his actions are those of an officer de facto and binding upon the public." 370 U.S. at 535.

After recognizing that the issue concerning the Article III status of the judges had not been preserved under the de facto doctrine, and after recognizing that the participation of the judges in question had not even colorably denied the petitioners independent judicial hearings, 370 U.S. at 533, the Court was nonetheless compelled to consider the constitutional status of the judges involved:

> "Authority for the Federal Government to decide questions of state law exists only by virtue of the Diversity clause in Article III. *Erie Railroad Co. v. Tompkins*, 304 U.S. 64, 48 S.Ct. 817, 82 L.Ed. 1188; see *Murray's Lessee v. Hoboken Land & Improvement Co.*, 18 How. 272, 15 L.Ed. 372. For this reason, the question whether Judge Madden enjoyed constitutional independence is inescapably presented." 370 U.S. 537-538.

Glidden establishes with unmistakable clarity the principle that Article III is intended to respect not only the separation of powers but concepts of federalism as well. If the Federal Government elects to decide cases which are cognizable before the federal system only by reason of the diversity clause of Article III, it may do so only with a judge having life tenure and a salary free from the possibility of reduction. *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, supra at 94 (White, J. dissenting). Indeed the present case represents the

clearly impermissible end of the spectrum evidenced by a long line of cases beginning with *Crowell v. Benson*, 285 U.S. 22 (1932) and ending most recently with *Thomas v. Union Carbide*, ___ U.S. ___ , 105 S.Ct. 3325 (1985).

On one end of the spectrum are those cases involving purely federal rights. Because Congress need not establish inferior federal courts and could instead rely upon the state court system, *Palmore v. United States*, 411 U.S. 389, 400-401 (1973), there is no constitutional requirement that an Article III court be employed to adjudicate the controversy. In these instances the focus of any constitutional question is properly limited to whether the fundamental requirements of due process have been met.

In the middle of the spectrum are those cases involving the adjudication of federal rights whose determination may also require the resolution of state law matters. Compare *Crowell v. Benson*, supra, with *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, supra. If there is no bright line for determining when the adjudication of such controversies must be in an Article III court, they are clearly distinguished from this case by the presence of a substantive Article I power underlying the Article I adjudicatory body.

It is the absence of a substantive Article I power to justify the creation of an Article I adjudicatory system which so clearly marks the impermissible end of the spectrum. Diversity actions are cognizable before an arm of the Federal Government solely by reason of the diversity clause of Article III. There is no corresponding Article I power which would justify the creation of an Article I adjudicatory body to han-

dle diversity actions. Petitioner respectfully submits that it would be an anomaly if this Court were to have struck down §241(a) of the Bankruptcy Act of 1978 in *Northern Pipeline*, where there was at least a substantive Article I power to justify the establishment of the Article I adjudicatory body, but permit the establishment of an Article I court system to handle diversity cases.

The present case is thus on analysis free of the difficulties which have so plagued this Court in dealing with those cases which fall in the middle of the spectrum. See Justice White's dissent in *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, supra at 93. The provisions of 28 U.S.C. §636(c) fall squarely at the impermissible end of the spectrum.

3. The Establishment of an Article I Court System to Exercise Article III Powers Violates the Separation of Powers Doctrine

The Framers' intent in establishing the textual requirements imposed upon the exercise of the judicial powers of the United States are clear and unmistakable:

> "Periodical appointments, however regulated, or by whomsoever made, would, in some way or other, be fatal to [the courts'] necessary independence. If the power of making them was committed either to the Executive or legislature, there would be danger of an improper complaisance to the branch which possessed it; if to both, there would be an unwillingness to hazard the displeasure of either; if to the people, or to persons chosen by them for the special purpose, there would be too great a disposition

> to consult popularity, to justify a reliance that nothing would be consulted but the Constitution and the laws." The Federalist No. 78, p. 489 (H. Lodge ed., 1888).
>
> "[N]ext to permanency in office, nothing can contribute more to the independence of the judges than a fixed provision for their support." The Federalist, No. 79, p. 491 (H. Lodge ed., 1888).

Magistrates, though exercising the judicial powers of the United States, possess none of these attributes. Against this backdrop, therefore, it is not surprising that the circuit courts have failed to cite a single principle of constitutional interpretation which permits them to ignore the textual requirements imposed upon the exercise of Article III powers. See T. Krattenmaker, Article III and Judicial Independence: Why the New Bankruptcy Courts are Unconstitutional, 70 Geo. L.J. 297, 311 (1981).

This Court has recently held that the principle of separation of powers was not simply an abstract generalization on the part of the Framers to be idlely ignored. *INS v. Chadha*, 462 U.S. 919 (1983).

> ". . .the fact that a given law or procedure is efficient, convenient, and useful in facilitating functions of government, standing alone, will not save it if it is contrary to the Constitution. Convenience and efficiency are not the primary objectives -- or the hallmarks -- of democratic government. . ." (462 U.S. at 944)
>
> "The choices we discern as having been made in the Constitutional Convention im-

> pose burdens on governmental processes that often seem clumsy, inefficent, even unworkable, but those hard choices were consciously made by men who had lived under a form of government that permitted arbitrary governmental acts to go unchecked. There is no support in the Constitution or decisions of this Court for the proposition that the cumbersomeness and delays often encountered in complying with explicit constitutional standards may be avoided . . .(462 U.S. at 959).

Yet it is difficult to perceive anything more than a rule of convenience underlying the decisions of the circuit courts which have affirmed the constitutionality of the Act. See, for example, the Seventh Circuit's opinion in *Geras v. Lafayette Display Fixtures*, supra at 1045, which exhibits in unequivocal fashion not only a rule of convenience but a constitutionally impermissible view of the role of our state judiciary:

> "In any event, it is ironic that, to avoid recourse to such expedients as the trial of some diversity cases by magistrates, the dissent would consider the abolition of diversity jurisdiction altogether. The loss to the federal scheme by ending diversity jurisdiction might far exceed any speculative loss in empowering magistrates to try these cases. We would, in effect, throw the baby out with the bath water. *The point is that hearing case loads cause losses somewhere and it is our task not to deny that losses exist but to hold them to a minimum.*" 742 F.2d at 1045. (emphasis added).

The congressional history underlying the enactment of the 1979 amendments to the Federal Magistrates Act clearly demonstrates that they were intended to deal with the growing backlog of the dockets in the Article III district courts. Senate Report No. 96-74, U.S.C. Cong. & Adm. News (1979), pp. 1469-1479. Indeed the Senate Report noted:

> "The imaginative supply of magistrate resources can help the system cope and prevent inattention to a mounting queue of civil cases pushed to the back of the docket. . .More flexibility is also created by the limited tenure of magistrates . . .No limitation is placed on the type of case which may be referred to a magistrate under this provision." Id. at 1472.

The cornerstone upon which these expansive powers were justified was not congressional analysis of the constitutional requirements enunciated by the Framers. Congress instead chose to rely upon the "voluntary consent" of those litigants whose cases were part of the ever-growing lot of unattended and forgotten cases in the backlog of the courts' dockets. Id.

A comparison of the legislative history underlying the enactment of 28 U.S.C. §636 with the 1976 amendments to the Federal Magistrates Act establishes a marked contrast between the two acts. The legislative history underlying the 1976 amendments indicated that Congress was merely attempting to free the Article III judge from many of the "pretrial and preliminary matters thereby facilitating the ultimate

and final exercise of the adjudicatory function at the trial of the case." House Report No. 94-1609, U.S.C. Cong. & Adm. News (1976) pp. 6162, 6167. It was on that basis that the provisions of the 1976 amendments were affirmed in *United States v. Raddatz*, supra. Quite the opposite is true here, for in relying upon the "voluntary consent" of those litigants whose case lies forgotten for want of an Article III judge, it is clear that Congress is attempting to replace and not merely facilitate Article III adjudications.

Many of the lower courts have nonetheless suggested that because Magistrates are appointed by Article III judges that the separation of powers concerns underlying the textual requirements of Article III are eliminated. See, for example, the Second Circuit's opinion in *Collins v. Foreman*, supra at 114-115, and the Ninth Circuit's decision in *Pacemaker Diagnostic Clinic of America, Inc. v. Instromedix, Inc.*, supra at 544-545. At the outset it must be noted that the argument is predicated upon the impermissible view that Congress is free to ignore constitutional requirements if there are arguments which would support the efficacy of an alternate but constitutionally unsanctioned system. See *INS v. Chadha*, supra at 959.

Not surprisingly, none of the lower courts have cited authority to support the proposition that the Framers were content to allow patronage to inject itself into the exercise of Article III power so long as the judiciary was able to participate in the appointment action.[3] The Framers, as noted above, con-

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[3]See Justice Marshall's dissent in *United States v. Raddatz*, supra at 705, f. 6, noting the concern on the part of the Framers over the possibility of an alliance between the judiciary and the

demned all forms of patronage no matter what combination of powers controlled the patronage rights. The Federalist No. 78, p.489 (H. Lodge ed., 1888). The argument also fails to address the Framers' concern that the individual judge be guaranteed independence after appointment through a term and salary free of outside control. And, as Judge Posner noted in his dissent in *Geras,* extending the power of appointment to Article III judges is hardly reassuring from another perspective.

> "The fact that the appointing power has been given to Article III judges is the opposite of reassuring. It makes magistrates beholden to judges as well as to Congress. The separation of powers is not merely tripartite. The Constitution built internal checks and balances into the legislative branch by making Congress bicameral and into the judicial branch by guaranteeing all federal judges -- not just Supreme Court Justices, or appellate judges generally --tenure during good behavior and protection against pay cuts. Appellate judges can reverse district judges, can mandamus them, can criticize them, can remand a case to another judge, but cannot fire district judges, cow them, or silence them -- cannot prevent them from making independent judgment and expressing independent views." 742 F.2d at 1053.

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legislature. See also Justice Harlan's opinion in *Glidden v. Zdanok*, supra at 539-540, suggesting the possibility of a constitutional problem under Article II, §2, cl. 2, should Article III judges be permitted to appoint other judges.

Although Justice White's dissent in *Northern Pipeline* is inapplicable to an Article I adjudicatory body which lacks the underpinning of a substantive Article I power, his focus on the need to keep Article III values in mind is illustrative. See 458 U.S. at 114-117. None of the circuits have suggested what Article III values are enhanced by utilizing magistrates to adjudicate Article III actions instead of appointing a sufficient number of Article III judges. Acceptance of an unconstitutional system in an effort "to hold [losses] to a minimum," as the Seventh Circuit candidly admitted in *Geras*,[4] hardly seems to advance Article III or further the constitutional scheme of checks and balances. Allowing Congress to use magistrates to avoid its constitutional obligation to either restrict the jurisdiction of the inferior federal courts or to appoint a sufficient number of Article III judges is a patent violation of the separation of powers.

4. The Transfer of Article III Powers to a Magistrate Court System May Not Be Saved by Labeling the Magistrate an Adjunct of the District Court.

In order to save the transfer of judicial functions to an Article I officer, the functions of the adjunct must be limited in such a way that the essential attributes of judicial power are retained in the Article III court. *Northern Pipeline Construction Co. v. Marathon Pipeline Co.*, supra at 76-87; *United States v. Raddatz*, supra at 683. The provisions of 28 U.S.C. §636(c) contain no such limitations and the Magistrate, as empowered by the Act, presided over the voir dire, ruled upon the evidence, instructed the jury as to the law of the case, ordered judgment on the verdict and ruled upon the post-trial motions.

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[4]742 F.2d at 1045.

Nor can the exercise of Article III power by an Article I court be justified by pointing to the possibility of appellate review by Article III court. See, for example, the suggestions contained in *Pacemaker Diagnostic Clinic of America v. Instromedix*, supra at 546. The availability of subsequent Article III review as a means of saving an Article I adjudicatory body is relevant only where there are substantive federal rights in issue. Where purely private rights arising in a diversity action are in issue, the decisions in *Erie* and *Glidden* foreshadow a different result as the plurality opinion in *Northern Pipeline* noted:

> "Our precedents make it clear that the constitutional requirements for the exercise of the judicial power must be met at all stages of the adjudication, and not only on appeal, where the court is restricted to considerations of law, as well as the nature of the case as it has been shaped at the trial level." *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, supra at 86, f. 39.

This rule has particular significance where jury trials are involved because it would be impossible for an absentee Article III judge to make the determinations required under Rule 59, F.R.C.P. A jury trial requires the presence and superintendence of a judge empowered to instruct them on the law and to set aside their verdict if, in his opinion, it is against the law or the evidence. *Capital Traction Company v. Hof*, 174 U.S. 1, 13-14 (1898).

No candid analysis can suggest that the Magistrate in this case, as empowered by the Act, exercised anything less than the essential attributes of the judicial

powers of the United States. See *Northern Pipeline Construction Co. v. Marathon Pipe Line Co.*, supra at 85-86 and *United States v. Raddatz*, supra at 683. And, contrary to some of the suggestions of the lower courts,[5] it should be equally clear that the result does not change simply because the reference could have been, but was not, vacated by the district court. Actual compliance with Article III is necessary at all stages of the adjudication as *Glidden* and *Northern Pipeline* so clearly demonstrate.[6]

5. Litigant Consent Cures Neither the Tenth Amendment Concerns Nor the Article III Separation of Powers Concerns.

Litigant consent has been cited by almost every circuit which has affirmed the constitutionality of 28 U.S.C. §636(c) as a means of saving the statute. The initial predicate for the advancement of the argument is fundamentally flawed, however, for it necessarily assumes that trial in an Article III court is a due process right which may be waived. If that were true, the analysis in *Glidden v. Zdanok*, supra, could have been terminated with the court's finding that there was not the slightest suggestion that the participation of the judges in question had colorably denied petitioners independent judicial hearings. See, Note, Article III Constraints and the Expanding Civil Jur-

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[5]See, for example, the suggestion contained in *Pacemaker Diagnostic Clinic of America, Inc. v. Instromedix*, supra at 546.

[6]Although legally irrelevant, the argument that the district courts retain the power to vacate the reference is disingenuous. The forces leading to the reference in the first instance will not have dissipated and prospects for having the district court vacate the reference are illusory as this case so vividly demonstrates.

isdiction of Federal Magistrates: A Dissenting View, 88 Yale L.J. 1023, 1035 (1979).

Only rights which are personal and which do not relate to the frame of government may be waived. *Patton v. United States*, 281 U.S. 276 (1930). Unlike individual liberties which are principally found in the amendments to the Constitution, the body of the Constitution was intended to establish the framework of the government and the principles of federalism and separation of powers upon which it was premised. Krattenmaker, Article III and Judicial Independence: Why the New Bankruptcy Courts are Unconstitutional, 70 Geo. L.J. 297, 301 (1981). Here there can be no doubt that Article III subject matter jurisdiction functions as a limitation on federal power and contributes to the characterization of the federal sovereign. *Insurance Corp. of Ireland Ltd. v. Campagnie des Bauxites de Guinea*, supra at 702.

Four decisions of this Court, all of which were decided before *Erie Railroad Co. v. Tompkins*, supra, have been cited by the various circuits as support for the constitutionality of a consensual reference. See *Kimberly v. Arms*, 129 U.S. 512 (1889); *Newcomb v. Wood*, 97 U.S (7 Otto) 581 (1878); *Heckers v. Fowler*, 69 U.S. (2 Wall) 123 (1864); and *Alexandria Canal Co. v. Swann*, 46 U.S. (5 How.) 83 (1847). As noted by the dissent in *Pacemaker Diagnostic Clinic of America, Inc. v. Instromedix, Inc.*, supra at 550, f. 1, these citations have been elevated far beyond their historical significance when cited for the proposition that Congress may make a wholesale delegation of Article III judicial power to Article I courts.

None of these cases discussed Article III, much less the ability of Congress to establish an alternative Ar-

ticle I court system to exercise Article III jurisdiction[7]. In *Kimberly v. Arms*, supra, the parties selected a lawyer to act as a special master and file a report with the Court. Because the master was not given any of the judicial powers of the United States, the Court's focus was on the standard of review prior to the entry of judgment. Id. at 523-525. The Court relied heavily on accepted state practices and the opinion clearly indicates that the lower court had retained jurisdiction to review the master's report and to enter judgment.

Newcomb v. Wood, supra, was cited by the Court as support for the decision in *Kimberly* and is closely analogous. The parties in *Newcomb* agreed to submit a bankruptcy controversy to arbitration under §281 of the Ohio Code. The lower court appointed the arbiters who were to prepare and file a report containing conclusions of fact and law. In turn, the court was to review the report and enter judgment. Like *Kimberly*, the reference in *Newcomb* was thus predicated on the application of state law and did not involve a total abdication of Article III power.

Heckers v. Fowler, supra, and *Alexandria Canal Co. v. Swann*, supra, each involved the common law predecessors to the current arbitration system as noted in the *Pacemaker* dissent. See *Pacemaker Diagnostic Clinic of America, Inc. v. Instromedix*, supra at 550

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[7]It should also be noted that none of these cases involved underlying federal legislation expressly intended to alter the administration of Article III justice. Nor did any of these cases involve the propriety of "voluntary consent" obtained from those litigants whose only alternative was to remain pushed to the back of the ever-growing queue. Senate Report No. 96-74, U.S.C. Cong. & Adm. News (1979), p. 1472.

f. 1, citing 16 S. Williston, A Treatise on the Law of Contracts §1919 (3d ed. 1976). As a result, none of these four cases can be reasonably characterized as support for the position that a consensual reference may serve to alter federal and state relations or the separation of powers.

CONCLUSION

The Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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Dated January 13, 1986

APPENDIX

APPENDIX A

UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT

Nos. 83-5424
84-5193

WESLEY T. BAILEY,
Plaintiff-Appellee,

v.

CHATTEM, INC.,
Defendant-Appellant.

FILED
Oct. 16 1985

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF TENNESSEE

BEFORE: **MARTIN** and **JONES,** Circuit Judges; and **BROWN,** Senior Circuit Judge.

Per Curiam. The question before us is whether the evidence presented to the jury was properly admitted and was sufficient to support the verdict in a trial to determine the amount of damages for fraud. This court previously affirmed the lower court's judgment of liability for fraud in obtaining the assignment of patent rights, but reversed the award of damages and remanded for a new trial on that issue. 684 F.2d 386 (6th Cir. 1982). On retrial, the jury awarded Bailey $627,000. Chattem appeals, arguing primarily that the expert testimony was not reliable and was not sufficient to support the amount of damages awarded. On consideration of this argument and the other

issues raised, we find that no reversible error occurred in the proceedings in the lower court, and, accordingly, we affirm the judgment.

The complicated facts of this patent dispute are fully explicated in our prior opinion in this litigation. 684 F.2d 386 (6th Cir. 1982). In the prior appeal, this court found that, although the promise sued upon contained a provision that payments would "somehow" be tied to a cost of living index. there was insufficient proof presented to the jury to define that provision:

> Bailey argues that the jury's award could legitimately be larger than this [the total of the remaining payments, $222,679] to take into account future inflation. However, here the measure of damages was set by a proposed contract, and the jury could not assume the payments under the contract would vary unless the contract so provided. Though there was a reference in the evidence to inclusion of a cost of living clause "somehow" tied to 1975 prices, *without further definition this term is too vague for the jury to assign any non-arbitrary value to it.* "To set a quantifiable damage figure arbitrarily is impermissible." *Agricultural Services Ass'n, Inc. v. Ferry-Morse Seed Co.*, 551 F.2d 1057, 1072 (6th Cir. 1977). (emphasis added).

684 F.2d at 395. Chattem argues that the evidence presented on retrial did not sufficiently define the vague term and that the expert testimony was inadmissible because it did not prove the actual intent of the parties. Chattem also contends that the trial court erred in admitting expert testimony that was not based on reliable methods. We disagree.

We note that the admissibility of expert testimony lies in the sound discretion of the trial court and is reviewable only for an abuse of discretion. *Kline v. Ford Motor Co.*, 523 F.2d 1067, 1070 (9th Cir 1975); 3 J. Weinstein, Evidence ¶ 702[02] at n.15 (1982). In diversity cases, we re-

solve questions of the sufficiency of evidence according to the test of sufficiency under state law, applying the law of the forum state. *Moran v. Johns-Manville Sales Corp.*, 691 F.2d 811, 813 (6th Cir. 1982). In Tennessee, the appellate court does not re-weigh the evidence, but considers only whether there is material evidence to support the verdict, taking the "strongest legitimate view" of the evidence that favors the appellee, disregarding contrary evidence, and indulging "all reasonable inferences to uphold the verdict." *Keller v. East Tennessee Production Credit Association,* 501 S.W.2d 810, 811-12 (Tenn. App. 1973).

Although there was little direct evidence on the intent of the parties, Bailey presented abundant evidence on the operation and application of cost-of-living indices. Bailey presented an economics expert who testified regarding cost-of-living adjustments and rates of inflation, and a patent expert who testified regarding the value of Bailey's invention. Chattem presented no experts of its own. We find that Bailey's experts were properly qualified and their methods were sufficiently reliable. *See Mannino v. International Mfg. Co.*, 650 F.2d 846, 851 (6th Cir. 1981). Accordingly, we conclude that the lower court did not abuse its discretion in admitting their testimony and that the testimony was sufficient to define the vague provision and support the jury's award of damages.

We find the other issues raised to be without merit. This court has ruled that 28 U.S.C. § 636(c) is constitutionally valid. *K.M.C. Co., Inc. v. Irving Trust Co.*, 757 F.2d 752, 755 (6th Cir. 1985). The district court did not err in refusing to allow Chattem to withdraw its consent to the magistrate's presiding at trial and entry of judgment under section 636(c). We affirm the denial of the motion to vacate under Federal Rule of Civil Procedure 60(b)(4) and the denial of the motion for judgment n.o.v. or new trial.

This court was informed at oral argument that the parties agreed that the motion to dismiss the first appeal, No. 83-5424, has been rendered moot by the subsequent

appeal from the final judgment and that the parties consider all issues briefed in both appeals to be properly before the court. We therefore dismiss Bailey's motion seeking dismissal of the interlocutory appeal.

For the foregoing reasons, the judgment of the lower court is **AFFIRMED.**

ISSUED AS MANDATE: NOVEMBER 7, 1985
COSTS: FOR APPELLEE
$105.00 for printing

JOHN P. HEHMAN, CLERK
By Nancy Schulkens
Deputy Clerk

APPENDIX B

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF TENNESSEE SOUTHERN DIVISION

WESLEY T. BAILEY

v.

CHATTEM, INC.

Civ 1-79-56

FILED
MAY 26 1983

MEMORANDUM

This is a cause of action for breach of contract, fraud and misrepresentation in connection with the assignment of a patent. This cause is before the Court upon the defendant's motion to set aside the judgment as void (Court File No. 77).

On October 16, 1979, the parties consented to have this case tried by the United States Magistrate. The stipulation provided that in a jury trial the District Court would enter judgment on the jury verdict. Subsequently, an order was entered by the clerk on February 11, 1980, referring the case to the United States Magistrate "for the conduct of any and all proceedings and the entry of judgment" (Court File No. 43). Pursuant to that consent, the case was tried before the United States Magistrate and a six-person jury, and the jury returned a verdict awarding plaintiff $650,000. The Magistrate entered judgment upon that verdict on March 6, 1980, but thereafter, the United States Magis-

trate denied the defendant's motion for J.N.O.V. conditioned on a remittitur of $148,000, which was accepted by the defendant. An amendment judgment was therefore entered by the Magistrate for $502,000 for the plaintiff. The defendant appealed to the Sixth Circuit Court of Appeals, which affirmed the decision in part, reversed in part and remanded to this Court. The Sixth Circuit vacated the $400,000 award for promissory fraud and remanded for a new trial only on that issue. On December 7, 1982, the United States Magistrate entered judgment for $102,000, plus interest, on the mandate of the Sixth Circuit on that portion of the verdict affirmed by the Sixth Circuit. On February 18, 1983, the defendant moved to stay the proceedings in this case, and moved to revoke its consent allowing the proceedings to be held before the United States Magistrate. Noting that the defendant waited until an unfavorable judgment following appeal had been entered to attempt to revoke its consent, this Court, through the Honorable Judge Pittman, denied the defendant's motion to revoke its consent on April 22, 1983. The Court now turns to defendant's motion pursuant to Rule 60 to set aside the judgment as void and to stay proceedings in this Court, also filed on February 18, 1983.

The defendant alleges that it is entitled to relief from the judgment because the judgment is void, having been entered by the United States Magistrate who is not an Article III judge and that the consent entered into by the parties was not followed.

The Court will first consider defendant's argument that the consent entered into by the parties was not followed. The parties initially signed a stipulation of reference to the United States Magistrate which indicated that if the case were tried before a jury, the district court would enter the judgment on a jury verdict and appeal would lie directly to the Sixth Circuit Court of Appeals (Court File No. 15). Subsequently, an order was entered by the deputy clerk which provided that the case was referred to the United States Magistrate pursuant to 28 U.S.C. § 636(c)(1) "for the conduct of any and all proceedings and the entry

of judgment" (Court File No. 43). The Court has considered the argument that the discrepancy between the two documents somehow renders the reference faulty and finds it to be without merit. The defendant consented to a trial before the Magistrate and did not object at the trial or appellate level to the entry of the order providing that the Magistrate enter the judgment in the case. Counsel are presumed to be aware of and familiar with the provisions of 28 U.S.C. § 636(c)(1) and the standing order of this Court, entered March 6, 1979, regarding the duties of full-time magistrates. If the defendant had desired the district court judge to enter the judgment, ample opportunity existed for the defendant to object to the entry of judgment by the Magistrate. This argument is without merit and will be denied.

Defendant next argues that the Magistrate lacked jurisdiction to hear this matter, notwithstanding its consent, and argues that it did not waive any right it had to have its case heard before an Article III judge. To that effect, the defendant argues that the Magistrate's Act of 1979 is unconstitutional as it usurps the judicial power of Article III Courts. The defendant's argument is based on Article III, §1 of the United States Constitution, which provides:

> The judicial power of the United States shall be vested in one Supreme Court, and in such inferior courts as the Congress may from time to time ordain and establish. The judges, both of the Supreme Court and the inferior courts, shall hold their offices during good behavior, and shall, at stated times receive for their services, a compensation, which shall not be diminished during their continuance in office.

The defendant argues that pursuant to Article III, the judicial power of the United States may be exercised only by judges who have constitutional tenure, relying on *Northern Pipe Line Construction Co. v. Marathon Pipe Line Co.*, ___ U.S. ___, 102 S. Ct. 2858, 73 L.Ed.2d 598 (1982). The section of the Magistrate's Act of which defendant complains is as follows:

> Notwithstanding any provision of law to the contrary—upon the consent of the parties, a full time United States Magistrate . . . may conduct any or all proceedings in a jury or nonjury civil matter and order the entry of judgment in the case, when specially designated to exercise such jurisdiction by the district court or courts he serves. 28 U.S.C. § 636(c)(1).

The Court is of the opinion that *Marathon* did not hold that every case or controversy which may be triable in an Article III court must be presided over by the Article III judge of that court. *Marathon* simply held that a party who is entitled to trial before an Article III court cannot constitutionally be required to submit to trial before a judge, such as a bankruptcy judge, who is not a tenured Article III judge. The party in *Marathon* who questioned the bankruptcy judge's exercise of jurisdiction in no way consented to have its case heard before a non Article III judge, and in no way waived its right to trial in an Article III court. Such is not the case here. Had the defendant refused to consent to trial before the United States Magistrate, its case would have come on for trial before an Article III district judge.

The Supreme Court has recognized that the part of the Magistrate's Act which provides that Magistrates may rule on dispositive motions, such as suppression motions, does not violate Article III. *United States v. Raddatz,* 447 U.S. 667, 65 L.Ed.2d 424, 100 S. Ct. 2406 (1980). The Court notes that in that case the Magistrate's findings to which objection was made were entitled to a *de novo* determination by the district court, however, the element of consent to proceed before the Magistrate, present in this case, was lacking in *Raddatz.* Other courts have held, upon similar challenges to trials by Magistrates by consent, that the parties are entitled to "freely and knowingly agree to waive their access to an Article III judge in the first instance," or to choose "another forum." *DeCosta v. Columbia Broadcasting System, Inc.,* 520 F.2d 499, 505 (1st

Cir., 1975), *cert. den.* 96 S. Ct. 856 (1976). That court held that there was no constitutional prohibition against the parties' consensual submission of their controversy to a tribunal of their own choosing, absent any coercion to consent. 520 F.2d at 507.

Defendant argues that under *Marathon,* the United States Magistrate, when exercising the judicial power of the United States, is not acting as an adjunct to the district court so as to satisfy the Article III requirements. The inherent differences between the jurisdiction of the bankruptcy judge and the United States Magistrate point out why the rationale behind *Marathon* is inapplicable to the case at bar. 28 U.S.C. § 1471(c) provided that the "bankruptcy court for the district in which a case under Title 11 is commenced shall exercise all of the jurisdiction conferred by this section on the district court." Therefore, although jurisdiction was nominally vested in the district court, the bankruptcy court had the exclusive authority to exercise that jurisdiction. However, United States Magistrates are entitled to exercise jurisdiction of the district court only upon the consent of the parties, and when specially designated to exercise such jurisdiction by the district court. 28 U.S.C. § 636(c)(1). It is clear that a Magistrate, who is appointed by the district judge and who is designated by the district judge to hear cases upon consent, acts only as an adjunct to the district court and under the supervision of the district court. Further, the district judge may vacate a reference to the Magistrate, on his own motion, at any time. 28 U.S.C. § 636(c)(6). Therefore, the problems encountered in *Marathon,* that the bankruptcy judge exercised exclusive jurisdiction and was not an adjunct of the district court, are not present in the instant case. In the instant case, the United States Magistrate entered judgment upon the jury verdict, and again upon the mandate of the Sixth Circuit, under the auspices and the supervision of the district court. The judgment entered was in fact the judgment of the district court, as recognized by the Sixth Circuit when it held, "we affirm the judgment of the district court as to liability but remand

for a new trial as to the amount of damages for the promissory fraud claim." *Bailey v. Chattem*, No. 80-5439 (6th Cir., Aug. 3, 1982). Further, as the Seventh Circuit has held, "when a civil case properly within the jurisdiction of an Article III court is tried before a Magistrate pursuant to an order of reference by the district court, jurisdiction remains vested in the district court and is merely exercised through the medium of the Magistrate." *Muhich v. Allen*, 603 F.2d 1247 (7th Cir. 1979). Although in that case, the district court entered judgment on the jury verdict and the Magistrate's findings, and in this case the Magistrate entered the judgment himself based on the jury verdict, it is still patently obvious that the defendant failed to object to the order allowing the Magistrate himself to enter the judgment based on the verdict.

The Court is further of the opinion that the defendant waived his right to object to having all proceedings in this case tried before the Magistrate as it knowingly and voluntarily, through counsel, agreed to the reference and failed to object to trial before the Magistrate until it was held liable for a substantial amount of damages and the case had been appealed and remanded by the Sixth Circuit. It has been held that a party who objects to reference to a Magistrate for the first time on appeal waives that right. *Calderon v. Waco Lighthouse for the Blind*, 630 F.2d 352 (5th Cir. 1980). The reasoning of that court applies even more in this case. In *Calderon*, the district judge referred the case *sua sponte* to the Magistrate for trial on the merits. The appellant failed to object to that reference in the district court or before the magistrate, and only belatedly objected to the reference during oral argument before the Court of Appeals. In this case, the district court did not initiate the reference, instead, the parties themselves initiated filing of the consent form. The defendant may not be heard to complain now of the rights it waived by the filing of its consent prior to trial.

In conclusion, the Court is of the opinion that the trial by reference which was held pursuant to the Federal Magistrates Act, 28 U.S.C. § 636 and to local rules, does not

impinge upon Article III values nor unconstitutionally delegate the jurisdiction of the district court to the United States Magistrate. Further, the Court is of the opinion that the defendant, by consenting to trial before the Magistrate, and failing to timely object to the entry of judgment by the Magistrate, waived any right to complain of the procedure to which it voluntarily consented. Therefore, the judgment will stand as entered, the defendant's motion to set aside judgment will be denied, and the case will proceed to trial on the remand of the Sixth Circuit. An order will enter in accordance with this memorandum.

ROGER W. DICKSON
UNITED STATES MAGISTRATE

APPENDIX C

IN THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF TENNESSEE SOUTHERN DIVISION

CIV-1-79-56

WESLEY T. BAILEY,

Plaintiff,

v.

CHATTEM, INC.,

Defendant.

(Filed January 31, 1984)

MEMORANDUM

This was an action originally brought for alleged breach of contract, fraud and misrepresentation in connection with the transfer of a patent from the plaintiff to the defendant. The case was originally tried before a jury which found that the plaintiff was the owner of the patent in question, that the patent was a valid patent, that the parties did not enter into a contract for long-term consulting agreement as claimed by the plaintiff but that the plaintiff was entitled to recover against the defendant for negligent and fraudulent misrepresentation. The jury further found that there was an implied obligation on the part of the defendant to use his best efforts to commercialize the invention, and that the plaintiff was entitled to recover for the breach of this obligation. Pursuant to this verdict, the jury assessed damages against the plaintiff in the amount of $548,000 in connection with the misrepresentation, $27,000 in connection with the breach of implied obligation to use best efforts to commercialize the invention and assessed punitive damages in the amount of $75,000. Pur-

suant to post-trial motions subsequent to the first trial, this Court suggested a remittitur in the amount of $148,000 with respect to the damages assessed for misrepresentation which remittitur was accepted by the plaintiff (Court File No. 54). The defendant then appealed this action to the United States Court of Appeals for the Sixth Circuit. The Sixth Circuit affirmed all aspects of the case with the exception of the amount of damages awarded for misrepresentation. The action was remanded to this Court and the damage issue alone was tried to a jury which set the damages to be awarded to the plaintiff for misrepresentation in the amount of $627,000. The matter is presently before the Court on the defendant's motion for judgment notwithstanding the verdict or in the alternative for a new trial (Court File No. 131) and defendant's alternative motion for remittitur (Court File No. 132).

The defendant's motion for judgment notwithstanding the verdict or for new trial will be considered initially. The standard of review for these motions will be discussed at the outset. The standard for reviewing a motion for JNOV is the same as a motion for a directed verdict. 9 Wright & MIller, *Federal Practice and Procedure,* §2524 and §2537. The question is whether there is any evidence upon which the jury could properly find a verdict for the party against whom the motion is directed. Said another way, "Evidence is sufficient to preclude granting a motion for directed verdict when, in reviewing the evidence in the light most favorable to the non-moving party, it would permit a reasonable jury to find in favor of that party." *Rose v. Nat'l Cash Register Corp.,* 703 F.2d 225, 227 (6th Cir., 1983).

The standard for considering the motion for new trial is that the trial court should not grant such a motion unless it is reasonably clear that substantial justice has not been done. The burden of showing the harmful error rests on the party seeking a new trial. 7 Wright & Miller, *Federal Practice and Procedure,* 62803. The trial judge has the power to prevent what he considers to be miscarriage of justice and the duty to order a new trial only

if he deems it necessary in the interest of justice to do so. 11 Wright & Miller, *supra*. Where conflict of the evidence has been resolved by the jury verdict and there is evidentiary basis for that verdict, it is error for the court to reevaluate the conflicting evidence and mandate a result opposite from that reached by the jury by granting a new trial. *Green v. Francis,* 705 F.2d 846 (6th Cir., 1983). A new trial is appropriate only if the trial judge determines that it is quite clear that the jury has reached a seriously erroneous decision resulting in a miscarriage of justice. 6A *Moore's Federal Practice,* 5908(5).

Consideration will initially be given to the defendant's motion for judgment notwithstanding the verdict. In this motion, the defendant contends that the Court should direct a verdict in favor of the defendant first because the plaintiff has elected to receive the one percent royalty in exchange for the assignment of his patent rights and cannot now receive any additional amount, and second, that the evidence in the case is insufficient to establish an intent on the part of the parties to enter into an agreement to provide the type of long term agreement alleged by the plaintiff. Consideration of this motion requires a brief review of the facts involved in this case, and the decision made by the previous jury. In the first trial of this case, the plaintiff contended that he assigned his patent to the defendant in exchange for the defendant's promise to pay the plaintiff a one percent royalty from the sale of the products covered by the patent and the defendant's agreement to enter into a long-term consulting agreement for the life of the patent once the patent was issued. The original jury found that there was no long-term contract for the life of the patent but found that the plaintiff was entitled to recover from the defendant for fraudulent misrepresentation in connection with the defendant's promise to the plaintiff of such a long-term agreement. It was the value of this promised but not given long-term agreement which the Sixth Circuit indicated should be resolved by a new trial.

In exchange for transferring his patent rights, the defendant agreed to pay the plaintiff a one percent royalty on goods produced and sold pursuant to the plaintiff's patent. The previous jury found that the defendant had also promised the plaintiff a long-term consulting agreement but had not delivered such. The defendant contends that the plaintiff cannot accept the one percent royalty and be awarded damages pursuant to a promised long-term agreement because these remedies are exclusive of each other. The Court finds that the plaintiff has not taken an inconsistent position in this action. The plaintiff has not attempted to rescind his assignment of patent and receive the patent back and at the same time receive damages resulting from transfer of the patent. The plaintiff has merely asserted his right to receive the entire package which the jury found the defendant promised the plaintiff in exchange for his patent rights. This package included both the royalty payment and a long-term consulting agreement.

With respect to the second ground asserted by the defendant in its motion for judgment notwithstanding the verdict the Court finds that the defendant is attempting to relitigate issues previously decided. The defendant contends that the proof is insufficient to establish an intent on the part of the parties to enter into a "sham" long-term consulting agreement. The previous jury determined that the parties did not enter into a long-term agreement. What the jury found was that the defendant promised a long-term agreement and did not deliver on its promise. There was proof in the record at the first trial that the defendant promised a long-term consulting agreement calling for the payment of $32,400 per year. There was proof in the record in the second trial as to the value of this long-term agreement. The Court finds that there is evidence in the record which would permit a reasonable jury to find in favor of the plaintiff concerning the long-term agreement and the motion for judgment notwithstanding the verdict will be denied.

The Court will next consider the defendant's motion for new trial. The first ground asserted by the plaintiff in the motion for a new trial is that a new trial should be granted because this case was tried before the United States Magistrate and the provision of the Federal Magistrate's Act pursuant to which the case was tried, 28 U.S.C. §636(c) is unconstitutional. This same argument was asserted previously by the defendant in a motion to set aside the judgment as void (Court File No.77), and a motion to certify to the Sixth Circuit Court of Appeals (Court File No. 93). On both previous occasions the Court has found the defendant's argument to be without merit and has stated in detailed opinions the reasons for the Court's findings (Court File Nos. 98 and 112). These opinions are incorporated into this memorandum opinion by reference as though repeated verbatim.

The defendant takes the position that the recent decision in *Pacemaker Diagnostic Clinic of America v. Instromedix, Inc.*, CA Nos. 82-3152, 82-3189 (9th Cir., 1983) supports its position. The Court recognizes that the decision of *Pacemaker* supports to some extent the defendant's position and would require a review of the final decision by the United States District Court Judge. However, the Court finds that the rationale used by the Third Circuit in *Wharton-Thomas v. United States*, No. 82-555 (3rd Cir., Nov. 23, 1983) to be more persuasive. The Third Circuit disagreed with the opinion of the panel of the Ninth Circuit (the Ninth Circuit has granted an *en banc* review in the *Pacemaker* case) and held that §636(c) does not violate Article III of the Constitution because: (1) the reference to a magistrate is consensual; (2) the district court has the power to vacate the reference; (3) the magistrate is appointed by the district judges, is a part of the district court and is specially designated to try cases; (4) the parties have a right of appeal to a district judge or the Court of Appeals.

For the reasons stated in its previous opinions and as articulated by the Third Circuit Court of Appeals in *Wharton-Davis v. United States*, the Court finds that §636(c) of

the Magistrate's Act is not unconstitutional and therefore this ground for new trial will be denied.

The defendant next asserts that the verdict was against the clear weight of the evidence and therefore a new trial should be granted. In connection with this assertion, the defendant makes several arguments. The defendant first argues that the verdict is against the weight of the evidence because the evidence is uncontradicted and establishes that there should be no apportionment in connection with the long-term contract. In discussing this argument certain previously established facts should be set out. Initially, it should be remembered that the jury in the first trial found that there was not a contract, but that the defendant promised the plaintiff a life of the patent, no-cut consulting agreement pursuant to which he would be paid $32,400 per year. In exchange for this promised long-term consulting agreement, the plaintiff agreed to assign his patent to the defendant. The jury's task in the second trial was solely to set damages for the defendant's misrepresentation concerning the promised long-term contract. In this connection, the jury was required to place a value on the patent that Bailey assigned to the defendant since this was what he exchanged for the promise of Chattem that a long-term consulting agreement would be provided to him. The best measure of the value of the patent was what Chattem offered the plaintiff, the no-cut consulting agreement. The no-cut life of the patent consulting agreement was to provide for payment of $32,400 per year, to the plaintiff; however, Bailey was to work for Chattem a total of 108 days per year. As set out by the Sixth Circuit in the opinion on the first trial, part of the second jury's task was to measure the value of the job security offered by the no-cut consulting agreement in 1976, when it was promised. The defendant wrongfully categorized this as whether the parties intended to apportion the long-term consulting agreement between the value of the patent and the value of Bailey's consulting services. Since there was no such contract the intention of the defendant is not the important consideration. Bailey

was to receive $32,400 per year. In addition to that, he was to work 108 days per year. It was the jury's duty to determine how much of the $32,400 per year was payment for Bailey's services and how much was consideration for Bailey's assignment of his patent to Chattem. The jury was instructed in this regard and both parties presented proof and argued at trial with respect to this apportionment. The jury apparently found that the value of Bailey's services would diminish as he grew older and attributed a large portion of the $32,400 per year as payment for the assignment of Bailey's patent to Chattem. There is evidence in the record to support the apportionment and to support the values used by the jury in connection with apportionment.

The defendant next argues that the verdict is excessive because it was based on speculation and is against the weight of the evidence. Initially in connection with this contention, the defendant asserts that there is no competent and credible evidence to allow for cost of living or inflation adjustment to the annual payments under the promised long-term agreement. In reviewing the first trial on appeal, the Sixth Circuit found that the evidence at that time was insufficient to support a cost of living escalator in the contract finding that the only reference in the evidence to such an adjustment was the 1976 letter from Mr. Charles Colburn, Research Director for Chattem, to Mr. Arthur Gross, Chattem's patent attorney, instructing Mr. Gross to prepare a long-term consulting agreement. The letter specifically states as follows:

> It is our thoughts that the fees in the long-term agreement should somehow be tied to a 1975 cost of living index. (Exhibit 3)

A copy of this letter was forwarded to Mr. James Van Buskirk, Vice President and General Manager of Chattem's Chemicals Division and Mr. John Guerry, Vice President of Chattem in charge of Legal Affairs. The Sixth Circuit found that this letter standing alone was not sufficient proof to allow for an inflationary or cost of living

adjustment to the long-term consulting agreement promised by Chattem to Bailey. The Sixth Circuit held that Bailey had offered no proof either further defining the terms of the cost of living clause or estimating the future rate of inflation upon which the clause would operate. The Court finds that both of these problems was solved by testimony offered by the plaintiff at the subsequent trial.

The plaintiff, through his own testimony, explained the conversations he had with Mr. Colburn of Chattem concerning the cost of living clause and the manner in which it was to be incorporated into the long-term agreement. Bailey testified that the day before the letter was sent from Mr. Colburn to Mr. Gross, Mr. Colburn contacted Bailey and they discussed at length the terms which would be incorporated into the long-term consulting agreement. On this date, Mr. Colburn read to Bailey a draft of a letter prepared by Mr. Colburn to be forwarded to Mr. Gross and Bailey indicated that he agreed with the terms Chattem was offering in connection with the long-term consulting agreement. Bailey testified that he and Mr. Colburn specifically discussed the fact that the long-term consulting agreement would be tied to a 1975 Cost of Living Index and they further specifically discussed the Consumer Price Index and how it might be used. They discussed whether the adjustments for the cost of living index would be made on an annual basis or every six months according to the Consumer Price Index. Mr. Bailey testified that Mr. Colburn indicated that the long-term consulting agreement would be tied to the 1975 Cost of Living Index because they were having this discussion in early 1976 and there were no 1976 figures available. Bailey testified that they discussed and agreed between the two of them that when the patent issued the difference in the cost of living index between 1975 and the date the patent issued would result in an increase in compensation to the plaintiff to catch up with the increase in the Consumer Price Index. Bailey indicated the only question concerning the cost of living index was whether or not the adjustment would be made annually or semi-annually. In addition, Mr. Thomas Ger-

aghty, an economic expert, gave lengthy testimony as to the meaning and effect of a cost of living clause contained in a contract such as the one promised by the defendant to the plaintiff and that references to the cost of living in such contracts ordinarily referred to the Consumer Price Index. Mr. Geraghty also testified as to rate of inflation upon which the clause would operate.

The Court finds that the evidence offered by the plaintiff through his own testimony and supported by the Jan. 8, 1976, letter from Mr. Colburn, and the testimony of Mr. Geraghty is sufficient to present a jury question as to whether or not Chattem had in fact promised that such a cost of living adjustment would be made, to specify the type of adjustment which was to be made and to define rate of inflation upon which such a clause would operate.

The plaintiff next argues that Mr. Geraghty's testimony is so speculative and without support as to be inadmissible. The plaintiff cites authority to the effect that expert testimony concerning inflation has to be based on sound reasoning and cannot be used to predict with certainty the rate of inflation at times in the distant future.

Any discussion of expert testimony should start with Rule 702, Federal Rules of Evidence. This rule provides that if scientific or technical knowledge will assist the trier of fact in understanding the evidence or in determining an issue of fact a person qualified by knowledge, skill, experience or education may testify as to his opinion concerning these matters. Rule 703 provides that an expert may testify concerning facts or data of a type reasonably relied on by experts in a particular field in forming their opinion. The Court finds that the testimony given by Mr. Geraghty was testimony reasonably relied upon by experts and was admissible. Prior to Mr. Geraghty's testimony, the Court specifically instructed the jury that Mr. Geraghty's testimony was merely his opinion as to what might happen in the future and that he could not, with any finality, testify as to what would happen in the future. The Court advised the jury that based on his education

and experience he will attempt to predict what might happen in the future but such testimony is not a guarantee that the matters testified to will in fact happen.

Mr. Geraghty has a Bachelor of Science degree in Economics from The Wharton School at the University of Pennsylvania, and a Masters of Business Administration from the graduate division of The Wharton School. Mr. Geraghty has been a member of the faculty at the University of Tennessee at Chattanooga since 1958, and is presently a George M. Clark Professor of Management Policy at the University. Mr. Geraghty testified concerning the manner in which a cost of living adjustment could be made to the annual payment called for under the promised long-term consulting agreement. In his testimony, Mr. Geraghty used the "mirror image" theory for determining future inflation. The Court finds that testimony such as this is the type of information usually relied upon by an expert in making such predictions as to future inflation. The proper manner in which this testimony is challenged is through cross-examination which the defendant exercised. In addition, Mr. Geraghty was not testifying as to the general inflationary rate of some undetermined figure. He was testifying specifically concerning what the defendant promised to the plaintiff in exchange for his assignment of the patent. The Court finds that such testimony was not so speculative as to be inadmissible.

The defendant further objected to Mr. Geraghty's testimony concerning adjustments to the amounts to be paid to the plaintiff based on the decreasing benefit of the plaintiff's consulting services. Here again, Mr. Geraghty used materials which are ordinarily relied upon by experts in making such calculations. It is obvious that as a person in a highly specialized field such as the plaintiff grows older his expertise may diminish and the value of his services would likewise diminish. Such testimony on the part of Mr. Geraghty is not so speculative or unreasonable as to be inadmissible.

The plaintiff lastly argues that Mr. Geraghty's use of a Chemist V as a basis of the plaintiff's earning classifi-

cations was inappropriate. Mr. Geraghty explained his use of this classification and was cross-examined concerning his use. The Court finds that the use of this classification was not so speculative or unreasonable as to be inadmissible.

For the reasons stated above, the Court finds that the jury verdict in the amount of $627,000 was not excessive, was not based upon speculation, was not against the weight of the evidence and that there was evidence in the record to support the jury verdict in this amount.

The defendant also argues that the Court erred in overruling the defendant's motion in limine with respect to the testimony of Mr. Geraghty and admitting into evidence the testimony of Mr. Geraghty over the defendant's objection. This ground is basically the same argument as was asserted by the defendant in the previous grounds for a new trial. The Court has found that Mr. Geraghty was a qualified economic expert and as such is competent to offer testimony concerning the rate of inflation in the future. The Court has further found that the facts and data relied upon by Mr. Geraghty are of the type reasonably relied upon by experts in his field. Therefore, the Court finds that Mr. Geraghty's testimony was admissible and that there is no error in overruling the defendant's motion in limine. The matters complained of by the defendant are matters which are properly subject to cross-examination and, had the defendant chosen to do so, could have been rebutted by competent expert testimony offered by the defendant. The Court finds that there was no error in denying the defendant's motion in limine with respect to Mr. Geraghty's testimony.

The defendant next contends that the Court erred in allowing the testimony of Paul R. Wiley into evidence. Mr. Wiley was qualified as an expert witness in valuing the patent rights transferred by the plaintiff to the defendant. His testimony was that the value of the patent was from Four Million to Sixteen Million Dollars. The key issue in this lawsuit was the damages sustained by the plaintiff as

the result of the misrepresentation of the defendant. The best means of determining these damages was to evaluate what the plaintiff was promised by the defendant in exchange for his patent rights, the $32,400 per year long-term consulting agreement. Since the plaintiff would have been required to work 108 days per year under the long-term agreement it is necessary to apportion the yearly payment between the value of the patent and the services required by the plaintiff. The testimony of Mr. Wiley was admitted solely to show the value of the patent as it may relate to the apportionment of the $32,400 and for no other reason. The value of the patent as contemplated by the parties at the time of the transfer was relevant. The fact that the patent did not generate this value by way of future sales is not the relevant inquiry. The Court finds that there was no error in allowing the testimony of Mr. Wiley for the limited extent for which it was allowed.

The defendant contends that the Court erred in refusing to grant the defendant's motion for a continuance. The defendant points out that the motion to continue was made so as to allow a decision to be made by the United States Patent Office concerning the validity of the patent and that this decision was issued within one week of the trial. Whether or not to allow a continuance is a matter which is within the sound discretion of the trial judge. 9 Wright & Miller, *Federal Practice and Procedure* §2352. At the time the decision was made there was no indication as to when the United States Patent and Trademark Office would rule on the validity of the patent. The fact that a decision was rendered shortly after the trial is not relevant. In addition as will be discussed subsequently the decision of the patent office is not of great importance to the outcome of this case.

The defendant further contends that a continuance should have been granted because the defendant only learned shortly prior to trial of the substance of the testimony to be offered by Mr. Geraghty. The Court finds that the substance of Mr. Geraghty's testimony was known to the defendant prior to the day of the trial and the

defendant was offered the opportunity to take Mr. Geraghty's deposition testimony at that time. The Court finds that there was no error committed in the Court's exercising its discretion not to allow a continuance of the trial date in this action.

The defendant's last ground asserted in its motion for new trial was that the Court's instructions to the jury were erroneous. This case was tried to the jury only on the issue of damages. For this reason the jury instructions were not lengthy. However, the defendant has asserted 17 instances where the defendant contends that the jury instructions were erroneous. In arguing this ground for new trial, the defendant concedes that the alleged errors in the jury instructions can be categorized into three different areas and these three areas will be addressed by the Court.

The defendant first contends that the instructions were unnecessarily inflammatory because they referred on several occasions to the fraudulent misrepresentation of the defendant. The jury instructions could not have been given without reference to the fraudulent misrepresentations of the defendant. At the first trial of the case the defendant was found guilty of fraudulent misrepresentation. The trial of this case was merely for the purpose of awarding damages pursuant to this misrepresentation. Therefore, the references to the fraudulent misrepresentation of the defendant was completely necessary to advise the jury of the matters about which they were to deliberate.

The defendant next contends that the instructions were erroneous because they were not specific enough with respect to the type of damages which could be awarded by the jury. The defendant consistently asserted that the Sixth Circuit in its opinion on the first trial had limited the theory upon which the plaintiff could assert his claim for damages in the second trial. The Court agreed with the position of defendant and its jury instructions were given pursuant to the position asserted by the defendant. As indicated by the Sixth Circuit, to assess the plaintiff's damages in the second trial the jury had to place a value

on the patent rights which the plaintiff assigned to the defendant. The best indication as to the value of what the plaintiff assigned is what the defendant offered to him; the no-cut consulting agreement pursuant to which he would be paid $32,400 per year but would be required to work for 108 days. The jury was required to determine how much of the annual payment was to be a premium for the patent rights above the compensation for the plaintiff's services. This was the manner in which the jury was instructed and was the approach which was consistently asserted by the defendant as being the proper measure of damages in this action. For the defendant to now argue that this was not the correct measure of damages in this action is confusing at best. The Court finds that there was no error in connection with its jury instructions as alleged.

The defendant lastly argues that the instructions were erroneous because they allowed the jury to consider if they desired a cost-of-living escalator factor. The defendant argues that there was no proof in the record concerning such an adjustment. This matter has been discussed at length previously and the defendant's motion for a new trial based on this particular jury instructions will also be denied.

The Court will now consider the defendant's alternative motion for remittitur. As has previously been set out during the first trial of this case, the jury found that the plaintiff was the original owner of U.S. Patent No. 4,049,748, that this was a valid patent and that the defendant was guilty of fraudulent misrepresentation in connection with the manner in which the defendant received the assignment of the patent from the plaintiff. As has been previously discussed substantial damages were awarded to the plaintiff at both the first and second trial in connection with this fraudulent misrepresentation. Subsequent to the first trial, the defendant, the owner of the patent pursuant to the assignment by the plaintiff, filed a re-issue application with respect to the patent. The defendant contended that this re-issue application was filed

in order to disclose to the Patent Office prior art that was material to the validity of the patent and which was not disclosed during the prosecution of the original patent application. The defendant has contended that its attempts to invalidate its own patent were taken because of its duty of candor with the Patent Office. The plaintiff contends that the actions taken by the defendant in connection with the re-issue application were taken solely for purpose of terminating the patent and therefore avoiding damages in connection with the life of the patent long-term consulting agreement promised by the defendant but not given to the plaintiff.

There are many questions which arise in connection with the defendant's actions in this regard. The Court first questions the defendant's discovering this duty of candor only after a verdict was awarded against it in the first trial for fraudulent misrepresentation. The jury apparently found in the first trial that any duty of candor on the part of the defendant was certainly not exercised in its dealings with the plaintiff. Secondly, it appears inconsistent that the owner of a patent who had any interest in maintaining the validity of the patent would so vigorously attempt to invalidate the patent through the reissuance process. The Court finds that the re-issue application filed by the defendant was filed for the purpose of terminating the patent and hopefully terminating any damages with respect to the promise of a life of the patent agreement with the plaintiff.

On August 12, 1983, pursuant to the re-issue application the United States Patent Office denied the re-issue application which action, the defendant contends, will eventually result in the invalidation of the patent. Only three days after the decision of the Patent Office, Mr. Charles Jolly, Vice President of the defendant, forwarded a letter to the plaintiff setting out the action of the Patent Office and enclosing an assignment of the rights of the patent from defendant back to the plaintiff. In the letter, Mr. Jolly points out that it is the defendant's feelings that the patent now has no value. These actions by the defendant

will not result in a remittitur being awarded to the defendant.

In making its argument for remittitur, as in other arguments, defendant has misinterpreted the posture of this lawsuit. The defendant contends that the plaintiff was to receive a life of the patent contract and, since the action of the Patent Office resulted in the invalidation of the patent, there is no more damages due under the life of the patent provision. As has previously been set out there is no contract in this case. The first jury found that there was no contract. The first jury found that the defendant did not intend to enter into a contract in its negotiation with the defendant, but received the assignment of the plaintiff's patent rights by promising him a contract which it did not intend to give. The only relevancy of the long-term agreement is to determine the value of what the plaintiff gave to the defendant as a result of the fraudulent misrepresentation of the defendant. This value is to be determined at the time of the assignment of the patent to the defendant by the plaintiff. The fact that the patent is subsequently found to be invalid is relevant only as it might relate to the reasonableness of what the parties felt the patent was worth at the time of the exchange. At the second trial of the case, the Court allowed the defendant to go into the re-issue application for the limited purpose of showing what the parties might have intended with respect to the apportionment of the $32,400 per year life of the patent promise between the services of Bailey and the value of the patent. As such, its relevancy was minimal as is the subsequent action taken by the Patent Office. The jury set an award of damages based on the value of the assignment of patent from the plaintiff to the defendant, such value was to be determined at the time of the transfer. Subsequent events and hindsight have little relevancy to this determination. Subsequent facts such as the one raised here by the defendant, except in a most unusual circumstance, cannot be the basis for changing a judgment. 11 Wright & Miller, *Federal Practice and Procedure,* §2808. To rule otherwise would result in litigation

which might never end. In addition, the Court notes that the patent was held to be valid in the first trial of this action. The decision of the Patent Office is not a final determination that the patent is invalid and is but one fact to be considered in determining the validity of the patent.

For the reasons stated above, the defendant's motion for a remittitur will be denied.

An order will enter in accordance with this memorandum opinion.

ROGER W. DICKSON
UNITED STATES MAGISTRATE

APPENDIX D

WESLEY T. BAILEY,

Plaintiff-Appellee,

v.

CHATTEM, INC.,

Defendant-Appellant.

No. 80-5439.

United States Court of Appeals,
Sixth Circuit

Argued April 19, 1982.

Decided Aug. 3, 1982.

Rehearing Denied Sept. 17, 1982.

Appeal was taken from a judgment of the United States District Court for the Eastern District of Tennessee, in favor of patentee in suit alleging promissory fraud on part of corporation with which patentee was employed as consultant. The Court of Appeals, Cornelia G. Kennedy, Circuit Judge, held that: (1) corporation failed to preserve issue of whether patentee failed to disclose prior art in regard to patent; (2) trial court properly applied California law to promissory fraud claim; (3) evidence failed to support damage award for promissory fraud; and (4) award of $27,000 on failure to commercialize claim was not excessive.

Ordered accordingly.

W. Neil Thomas, III, Thomas, Mann & Gossett, W. Neil Thomas, Jr., Chattanooga, Tenn., for defendant-appellant; George T. Mobille, Cushman, Darby & Cushman, Washington, D.C., on brief.

Carlos C. Smith, David B. Kelser, Strang, Fletcher, Carriger, Walker, Hodge & Smith, Chattanooga, Tenn., Truman R. Adkins, Redondo Beach, Cal., Gary Lande, Poms, Smith, Lande & Rose, Los Angeles, Cal., for plaintiff-appellee.

Before ENGEL and KENNEDY, Circuit Judges, and ENSLEN,* District Judge.

CORNELIA G. KENNEDY, Circuit Judge.

In this case we are called upon to decide whether plaintiff's patent is invalid, thus defeating his causes of action based on the assignment of rights in the patent; whether California or Tennessee law properly applies on the facts of this case to plaintiff's claim of promissory fraud; whether the damages the jury awarded plaintiff, as reduced by the trial court, were excessive as a matter of law; and whether there was sufficient evidence to submit plaintiff's cause of action for failure to commercialize to the jury. We affirm the judgment of the District Court as to liability but remand for a new trial as to the amount of damages for the promissory fraud claim.

Liquid substances such as paint, which are frequently applied to a vertical surface with a high speed applicator such as a spray gun, have historically presented users with something of a dilemma. If the substance has a low enough viscosity for satisfactory high speed application it tends to drip and sag once on the vertical surface. If, on the other hand, the substance is thick enough that it will not drip or sag once applied, it is too thick for use in a high speed applicator.

During the 1960s appellee Wesley T. Bailey worked with alkyd resins (paint) to improve their properties during application. Specifically, he was exposed to the idea of premixing aluminum alkoxide in paint thinner, then adding this premix to the alkyd resins to produce a paint that maintained a low viscosity during application but had a

* The Honorable Richard A. Enslen, United States District Court for the Western District of Michigan, sitting by designation.

high viscosity once applied to a vertical surface. The paint was, therefore, easy to spray but resisted dripping and sagging as well. A fluid with these characteristics is "thixotropic" or "non-Newtonian."

Unsaturated polyester resins, used in conjunction with fiberglass to form fiberglass products, present the same problem to users as did alkyd resins. Although there were ways to solve the "poor application or poor result" dilemma for polyester resins in the early 1970s, they were expensive and had undesirable side effects. In early 1970 Bailey conceived of adding aluminum alkoxides to polyester resins to render them thixotropic without the unwanted side effects. In April, 1970 Bailey recorded his idea in an invention disclosure record, witnessed by his son and wife. He did not, however, reduce his idea to practice them.

Bailey's idea apparently lay dormant for four years. In 1974 Bailey, who is a consultant in the chemical and petrochemical fields doing business as Welsey T. Bailey & Associates in Redondo Beach, California, came into contact with defendant-appellant Chattem, Inc., a Tennessee corporation that produced aluminum alkoxides and other products. Chattem was seeking new uses for its products and entered in discussions with Bailey to further this goal. The discussions culminated with Bailey and Chattem entering into an agreement effective October 1, 1974 whereby Bailey would serve as a consultant to Chattem. The agreement provided that any discovery or invention involving Chattem's operations made by Bailey during or as a direct result of his consultation would be the exclusive property of Chattem.

Bailey began work immediately to reduce his idea to practice. Soon after he began consulting for Chattem he premixed aluminum alkoxide in styrene, then added the premix to polyester resin. Styrene is the solvent for unsaturated polyester resins the way paint thinner is the solvent for paint. With some further refining the styrene premix added to the polyester resin produced the desired non-Newtonian properties.

The next steps were to produce a commercially feasible product and to procure a patent. At the same time Bailey and Chattem entered into discussions concerning both the assignment of Bailey's rights in the patent and, in the interim, renewal of the original consulting agreement. The parties agreed to extend the consulting agreement for a series of two-year terms, renewable automatically every two years but cancellable on 90 days' notice by either party. In exchange for his rights in the invention Bailey was promised a one percent royalty on any sales of products made under the patent. Bailey alleged that he was also promised a consulting agreement for the life of the patent which would be cancellable on 90 days' notice on his part but would not be cancellable by Chattem, and would replace the renewable two-year consulting agreement. Bailey assigned his rights in his invention to Chattem before the patent issued. He and Chattem subsequently, but still before the patent issued, signed a renewable two-year consulting agreement.

After several applications and two rejections the Patent Office approved U.S. Patent No. 4,049,748 covering Bailey's invention on September 20, 1977. Meanwhile, Chattem and Bailey were encountering technical difficulties in producing a marketable product. The difficulties persisted until shortly before trial of the case in 1980 according to Bailey, and even at the time of trial according to Chattem. After the patent issued Bailey inquired about the promised long-term consulting agreement, but was told that he had received all he was entitled to in the one percent royalty and renewable two-year consulting agreement. When Chattem persisted in its refusal to enter into a consulting agreement for the life of the patent Bailey filed this lawsuit.

By stipulation of the parties the case was tried to a jury before a United States magistrate. Bailey argued that Chattem had breached a contract to give him a long-term consulting agreement in exchange for his rights in the patent. In the alternative he argued that Chattem was guilty of promissory fraud, in that when it made the prom-

ise to enter into a long-term consulting agreement it had no intent to perform. Bailey also sought to recover for Chattem's failure to commercialize the potential product and bring the premix to market earlier than it did. Chattem defended, *inter alia,* on the ground that Patent No. 4,049,748 was invalid, having been procured through a fraud on the Patent Office. Chattem also claimed that because Bailey did not perfect the invention until after he began working for Chattem, the invention was the property of Chattem under the terms of the consulting agreement. For both of these reasons Chattem contended there was a want of consideration for any promise it might have made to Bailey.

The jury rejected Chattem's defenses. It found the patent valid and found the invention complete prior to October 1, 1974. The jury also rejected Bailey's contract claim, but found in his favor on both the promissory fraud and failure to commercialize claims. It awarded damages totalling $650,000, including $548,000 compensatory and $75,000 punitive for the fraud and $27,000 for the failure to commercialize. The trial court denied Chattem's motion for a judgment NOV or new trial, conditioned on Bailey's accepting a remittitur of $148,000 of the compensatory damages for fraud. Bailey accepted and this appeal followed.

VALIDITY OF THE PATENT/OWNERSHIP OF THE INVENTION

Chattem maintains that Bailey's testimony in support of his ownership of the invention is inconsistent with his disclosures to the Patent Office. It urges that because of the inconsistency we must either find that Bailey did not own the invention, or rule that the patent is invalid *ab initio.*

To prevail at trial Bailey had to persuade the jury that adding aluminum alkoxide in a styrene premix to polyester resins to give the resins non-Newtonian properties was "invented" by him (as the word "invention" was used in the original consulting agreement) prior to the start of his

consulting for Chattem on October 1, 1974. If the "invention" did not take place until after the start of consultation then by the terms of the consulting agreement it belonged to Chattem. To prove that the invention preceded October 1, 1974 and was his, Bailey introduced his invention disclosure record. The record contained an entry dated April 16, 1970 which described the addition of aluminum alkoxide to polyester resins to achieve a non-Newtonian fluid. However, the invention disclosure record did not describe the use of a styrene premix to introduce the aluminum alkoxide to the resin. For most aluminum alkoxide compounds such a premix is apparently necessary to produce a non-Newtonian fluid and to avoid a mixture with the undesirable consistency of applesauce.

Chattem argued at trial that Bailey's invention was not complete until he actually reduced the idea to practice by adding aluminum alkoxide to the resin in a styrene premix, and that he did not do this until after he began consulting for Chattem. Chattem supported its argument in part with the claim that Bailey had not even thought of the admittedly critical premix step prior to working for Chattem, as if he had he would surely have included this step in his description of the invention either in the invention disclosure record or in some other writing. Bailey responded that although he had not described the premix step in writing prior to his consulting with Chattem, he never contemplated adding the aluminum alkoxide without a premix because all of his prior work with alkyd resins indicated that a premix was necessary. Bailey successfully persuaded the jury on this point, and also on the ultimate point that his invention was complete within the meaning of the consulting agreement at the time he thought of all the major necessary steps, not when he reduced it to practice. The jury, therefore, found that Bailey, not Chattem, owned the invention.

In connection with his patent application Bailey made at least a partial disclosure of the prior art, wherein aluminum alkoxide was added to alkyd resins in a paint thinner premix. He distinguished the addition of aluminum

alkoxide to alkyd and polyester resins, but he may not have disclosed the use of a premix with alkyd resins. He also disclosed prior art wherein aluminum alkoxide was added to polyester resins. Bailey distinguished this latter prior art on the ground that it did not show the use of a premix, so produced a polyester resin without thixotropic properties. Bailey contended to the Patent Office that his invention was adding aluminum alkoxide to the polyester resin in a premix instead of directly. It is Chattem's position that in making these claims Bailey relied on the inventiveness of using a premix but never disclosed to the Patent Office that, as he successfully argued to the jury to establish his rights in the invention, he considered a premix step obvious from his work with alkyd resins.

Chattem contends here that Bailey cannot have it both ways. If the essence of his invention is the premix and the use of a premix with polyester resins is not obvious as he argued to the Patent Office, then the jury could not have found that the use of a premix was obvious to him prior to October 1, 1974. As a result, his invention was not complete until Bailey first actually used a premix, which was after he began work for Chattem. If, on the other hand, the need for a premix step was so obvious from Bailey's work with alkyd resins that he did not need to write it down in order to claim he thought of it before working for Chattem,then the use of a premix fails to draw a patentable distinction between Bailey's invention and the prior art and Bailey had an obligation to disclose this fact to the Patent Office. A patent applicant owes an "uncompromising duty" to disclose material prior art to the Patent Office, *Buzzelli v. Minnesota Mining & Manufacturing Co.*, 521 F.2d 1162, 1165 (6th Cir. 1975), and "he risks non-enforcement of his monopoly on later discovery of a failure to fulfill that obligation." *True Temper Corp. v. CF&I Steel Corp.*, 601 F.2d 495, 501 (6th Cir. 1979). Had Chattem demonstrated that Bailey breached that uncompromising duty here we would be required to find the patent invalid.

However, Chattem has not preserved this question for our review. As stated in Chattem's motion for directed verdict, its claim at trial that the patent was invalid because of material misrepresentation on Bailey's part to the Patent Office had two facets: first, the patent was invalid because in Figure 2 of the patent application Bailey allegedly misrepresented to the Patent Office the retained flexural strength of certain cured polyester resins after sustained exposure to boiling water; second, it was invalid because Bailey made a material misrepresentation when he told the Patent Office that a premix was *always* necessary to add aluminum alkoxide to polyester resins to get a thixotropic liquid, although his roughly contemporaneous thoughts were that for some classes of aluminum alkoxide a premix was not necessary. Bailey fully explained both these alleged misrepresentations at trial. The magistrate and jury each rejected Chattem's theories and Chattem did not appeal those decisions. Most important for our present purpose, the two facets of material misrepresentation Chattem relied on at trial have nothing to do with the argument presented here, that failure to disclose prior use of a premix with alkyd resins was a material omission. Nowhere in the record on appeal can we find that Chattem asked the trial court to rule, as a matter of fact or law, that Bailey's patent was invalid for the reasons Chattem puts forth here.[1]

"It is this Court's inveterate rule not to reverse on grounds not raised in the district court." *United States v. McDowell Contractors, Inc.*, 668 F.2d 256, 257 (6th Cir. 1982). *See also Union Planters National Bank v. Commercial Credit Business Loans*, 651 F.2d 1174, 1187 (6th Cir. 1981), *cert. denied*, ___ U.S. ___, 102 S.Ct. 972, 71 L.Ed.2d 111 (1982). The rule is applicable where fraud on

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[1]During cross-examination of Bailey counsel for Chattem did inquire whether Bailey had informed the Patent Office of his work with alkyd resins, or tell the Patent Office that he thought his invention was obvious. This bit of testimony, never raised to the trial court as part of Chattem's theory for recovery, is not sufficient to preserve the question of law on appeal.

the Patent Office is alleged. *LaSalle Street Press, Inc. v. McCormick & Henderson, Inc.*, 445 F.2d 84, 96 (7th Cir. 1971). Chattem asks us to create an exception to this rule here in recognition of the strong public policy against enforcement of fraudulently acquired patents. It cites *Lear v. Adkins*, 395 U.S. 653, 670-671, 89 S.Ct. 1902, 1911, 23 L.Ed.2d 610 (1969), for the proposition that "technical" legal doctrines should not bar judicial review of a patent's validity.

Lear v. Adkins involved a question much different than that presented here. The Supreme Court there ruled that a patent licensee could sue the licensor and claim the patent was invalid, despite a contract doctrine of estoppel that would have barred the suit. The Court was concerned that no party other than the patent licensee would have the resources or inclination to vindicate the strong public interest in free and fair competition. No similar concern exists here. Requiring the parties to raise all issues in the trial court on penalty of not being able to present them on appeal does not foreclose anyone from litigating the validity of a patent. Nor is the requirement that all issues be raised in the first instance in the trial court a "technical" rule of law. It is the means by which we ensure that the issues have been thoroughly litigated and that review is based on a complete record.[2]

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[2]The wisdom of this rule is demonstrated here. Even under Chattem's characterization the jury would not have been required on the present record to find inconsistent Bailey's positions in claiming the invention while distinguishing prior art. It is possible that in context Bailey's claim that the use of a premix was obvious from his work with alkyd resins extended no farther than a statement that in order to achieve thixotropic properties in a fluid it was obvious to him that a premix was the necessary means of putting the additive in the fluid. In arguing this position to the jury Bailey did not need to state that it was obvious to him to premix this particular additive, aluminum alkoxide, in the particular solvent, styrene, to make thixotropic this particular fluid, polyester resin. At the same time, in his presentation to the Patent Office Bailey could have been claiming only the inventiveness of this particular premix. He was not necessarily claiming the inventiveness of the premix step per se, nor did he need to, to distinguish his work

Although we do not hold that no fraud on the Patent Office could ever be raised for the first time on appeal, the facts of this case do not warrant a departure from the well-settled rule. We note that if Chattem was surprised by Bailey's testimony at trial as it claims, it should not have been. Chattem had ample warning as to the substance of Bailey's testimony and could have raised this issue below.

Whether or not Bailey had an obligation to tell the Patent Office that he thought his use of a premix with polyester resins was obvious, we have no difficulty affirming the jury's conclusion that Bailey owned the invention. The jury could find from the evidence that the word "invention," as used by the parties to the consulting agreement, did not require reduction to practice. There was also more than sufficient evidence from which the jury could find that although the premix step was not encapsulated in writing, Bailey's idea was complete prior to the time he began to work for Chattem. In addition to Bailey's testimony on this point, it appears from the evidence that in September 1974 he discussed the use of a styrene premix with one of Chattem's officers.

PROMISSORY FRAUD

Having determined that Bailey owned his invention and that the magistrate did not err in finding Patent No. 4,049,743 valid and enforceable, we must next decide whether the jury properly could find that Chattem committed the tort of promissory fraud, and if so, whether the jury's award of damages was excessive. Chattem argues that Tennessee law applies to these questions, and that Tennessee does not recognize the tort of promissory fraud. Bailey contends that California law applies, but that even if Tennessee law applies Tennessee in an appropriate

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from prior art involving the addition of aluminum alkoxide to polyester resins in another fashion to achieve a different purpose. However, because this issue was not raised below the jury was never asked to decide the alleged inconsistency in Bailey's position at two different times on this or any other basis.

case will recognize such a tort, and this is an appropriate case. Since we conclude that California law applies it is unnecessary for use [sic]to resolve the argument regarding the law of Tennessee.

Bailey is a resident of California, doing business in California as Wesley T. Bailey & Associates. He performed a substantial part of his consulting work for Chattem in California. Chattem is a Tennessee corporation with its principal place of business in Tennessee. Many of the discussions between Bailey and Chattem concerning assignment of his rights in any patent that issued saw a representative of Chattem speaking or writing in Tennessee to Bailey, who received those communications in California. Bailey twice executed an assignment of his right to the patent in California and mailed these assignments to Chattem in Tennessee.

Tennessee is the forum state in this case. The conflicts law of the forum determines which state's substantive law shall apply. *Telecommunications, Engineering Sales & Service Co. v. Southern Telephone Supply Co.*, 518 F.2d 392, 394 (6th Cir. 1975). Where a tort is alleged Tennessee conflicts law applies the substantive law of the state where the wrong occurred. *Winters v. Maxey*, 481 S.W.2d 755 (Tenn.1972). If the tort occurred in more than one state the place of the wrong is the state where the last event necessary to make the actor liable took place. *Koehler v. Cummings*, 380 F.Supp. 1294, 1305 (M.D.Tenn.1974). Under this *lex loci delicti* approach, "[w]hen a person sustains loss by fraud, the place of wrong is where the loss is sustained, not where the fraudulent representations are made." Restatement of Conflict of Laws § 377, Note 4 (1934).

Chattem argues on appeal that the trial court should have applied the substantive law of Tennessee, on the theory that Bailey was not damaged and the tort was not complete until he was refused the long-term consulting contract that Chattem supposedly promised him and this refusal occurred in Tennessee. In the alternative, Chattem

argues that because Bailey enclosed certain conditions with the first assignment of his patent rights the delivery was not effective in California, so Tennessee law should apply.

Chattem cannot prevail on its theory that Bailey did not effectively assign his patent rights in California. The record shows that Bailey executed two assignments. The first, absolute on its face, was accompanied by a letter requesting Chattem not to record the assignment until the completion and signing of the promised long-term consulting agreement. Chattem's argument is that the letter accompanying the first assignment evidenced Bailey's lack of intent to assign the patent at the time, and thus delivery of the assignment was not complete in California.[3]

We think Bailey's first assignment of his patent rights was effective and so constituted detrimental reliance. The law in this Circuit is that recording does not affect the validity of a patent assignment except as to subsequent purchasers or mortgagees without notice. *Why Corp. v. Super Ironer Corp.*, 128 F.2d 539, 541 (6th Cir. 1942). Therefore, Bailey's request that Chattem not record the assignment did not affect rights between the parties.

However, were this not the law our decision would be the same. Chattem's argument goes to when Bailey was harmed, not where. From the record on appeal we can only conclude that whenever he eventually assigned his rights in the patent, the place Bailey did so was California. If Bailey's first assignment was ineffective, it was nonetheless followed by a second, unconditional assignment.[4] *Cf.*

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[3]Bailey and Chattem do not share a common interpretation of the phrase "long-term consulting agreement." Bailey contended it meant a 17 year, life of the patent, contract. Chattem, on the other hand, contended it meant the two-year automatically renewable contract, subject to cancellation, which Bailey actually received. Consistent with its interpretation, Chattem recorded the assignment when Bailey signed the first two-year agreement, before the patent issued.

[4]Chattem argues that this second assignment was merely a technical replacement of the first, with no greater effect. This argument, if made below, was rejected and we are bound to do the same.

Restatement of Conflict of Laws § 477, Note 4, Illustration 5. Chattem has produced no evidence that Bailey assigned his rights outside California.

Nor are we persuaded that Bailey did not sustain harm until Chattem failed to perform. Under California law promissory fraud is the implied misrepresentation of a *present* fact, the promissor's present intent to perform the promise. *See, e.g., Harazim v. Lynam,* 267 Cal.App.2d 127, 72 Cal.Rptr. 670, 674 (1968). Chattem was guilty of this tort at the time Bailey relied on Chattem's misrepresentation to his detriment by assigning his patent rights to Chattem, an act he clearly performed in California. At that time he gave Chattem something of value in exchange for a promise which the jury found Chattem had no intention of keeping. Once Bailey relied to his detriment he was not required to wait to see whether Chattem ultimately chose to perform its promise notwithstanding its earlier fraudulent intent not to. Had Chattem chosen to perform that would have been in the nature of mitigation of Bailey's damages, but Chattem's non-performance was not a prerequisite to Bailey's recovery. Thus, the fact that Chattem refused to keep its promise in Tennessee does not dictate the application of Tennessee law. Because Bailey sustained a loss in California when he assigned his rights in the patent, the trial court properly applied the substantive law of California.[5]

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[5]The *lex loci delicti* rule is not followed in the Restatement (Second) of Conflict of Laws. In fact, Tennessee is one of only four states which still follow the rule. Some of the heavy criticism of the rule is directed at the fact that with torts such as fraud there may be no clearly demonstrable place of injury, or the loss could legitimately be said to be sustained in two or more states. Restatement (Second) of Conflict of Laws, Chapter 7, Introductory Note (1971).

In addition to this potential for confusion, the *lex loci delicti* rule lends itself to abuse. In a case such as the instant one a plaintiff could potentially choose the law to be applied to his fraud case simply by travelling to the state of his choice and parting with his patent rights there. Where the facts suggest such abuse we are not at all sure Tennessee would continue mechanically to apply the *lex loci delicti* rule.

Chattem does not argue that under California law Bailey failed to prove a promissory fraud. Thus, we accept that fact as proven and turn to the question whether the damages awarded by the jury on this count were excessive. The jury found that as a result of Chattem's fraud Bailey suffered damage. Although the jury instructions are silent as to what the elements of Bailey's damages were for misrepresentation, the only damage supportable by the record is the assignment of his patent to Chattem. To make Bailey whole the jury would have to have found the value of the patent Bailey assigned. The jury arguments were not transcribed. However, in response to Chattem's post-verdict motions for judgment notwithstanding the verdict and for a new trial Bailey argued that the best measure of value is what Chattem offered him: a no-cut consulting agreement under which he would be paid $32,400 per year for the life of the patent, normally 17 years.[6] At the time

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However, there is not even a hint of abuse here, so we do not hesitate to apply California law as we feel Tennessee would do.

We note that under the more modern approach of the Restatement (Second) California law would also apply. The Restatement (Second) applies the substantive law of the state with the greatest interest in the cause of action. As to fraud and misrepresentation, the Restatement identifies the following relevant contacts:

> (a) the place, or places, where the plaintiff acted in reliance upon the defendant's representations,
> (b) the place where the plaintiff received the representations,
> (c) the place where the defendant made the representations,
> (d) the domicil, residence, nationality, place of incorporation and place of business of the parties,
> (e) the place where a tangible thing which is the subject of the transaction between the parties was situated at the time, and
> (f) the place where the plaintiff is to render performance under a contract which he has been induced to enter by the false representations of the defendant.

Restatement (Second) of Conflict of Laws § 148(a). Upon weighing these contacts on the facts before us we find that California law would still apply. *Id.* Comment j.

[6]Bailey was also offered a one percent royalty on sales, but since he received this part of what he was promised the jury was not required to consider it here.

of trial the maximum remaining length of the contract was 14 years. Because Bailey had been fully compensated under interim consulting agreements for the first three years of the life of the patent he was not entitled to damages attributable to that period. Chattem's evidence showed that the present worth of a contract for $32,400 per year for 14 years was $222,679.

However, the no-cut agreement was also to provide that Bailey would work for Chattem 108 days per year. Because Bailey was required to give Chattem something in addition to his rights in the patent, Chattem argued in its post-judgment motions that some portion of the $32,400 represented the value of Bailey's services, not consideration for the patent. The jury was required to determine how much of the $32,400 was a premium above the compensation for Bailey's services, designed as payment for the patent.[7] Chattem introduced evidence that based on Bailey's past consulting earnings at least $25,000 of the $32,400 was compensation for services, but there was also evidence from which the jury could find that the value of Bailey's services would decline before the patent expired.

Since a no-cut contract was to replace an automatically renewable two-year contract, terminable at the option of either party at the end of each two-year period, the increased job security of a no-cut contract was part of what Bailey was promised in exchange for the patent. Part of the jury's task was to measure the value of this job security in 1976, but neither party offered any evidence on this question. Finally, there was evidence that the parties discussed including a cost of living escalator in the contract which would "somehow" be tied to 1975 price levels. Although Bailey testified that the Department of Labor's

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[7]Chattem treats this question as one of Bailey's duty to mitigate his damages by finding alternate employment for 108 days per year, but in reality it has nothing to do with mitigation. It is simply a matter of deciding what part of the value Bailey was to receive under the employment contract was actually for the patent, not for his services. Since the jury found no breach of contract we are not concerned in this case with compensating Bailey for the value of the services he was to provide Chattem under the consulting agreement.

cost of living index was mentioned, Bailey offered no proof either further defining the terms of the cost of living clause or estimating the future rate of inflation upon which the clause would operate.

The trial court's instructions on damages were wholly inadequate to guide the jury in the complicated task of weighing this evidence to find the amount by which Bailey was defrauded in 1976.[8] In essence, the jury was only

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[8]The following are the totality of the instructions on this item of damages:

The Plaintiff would be entitled to recover all of the damages which he sustained as a direct and proximate result of the Defendant's misrepresentation. Now, in awarding damages for misrepresentation, compensation is to be given only for those losses which were caused by the misrepresentation and which could be reasonably foreseen as a probable result of the misrepresentation when it was made.

Accordingly, one who is guilty of misrepresentation, while he may be held liable for all damages reasonably foreseeable which will be incurred by the Plaintiff by reason of such misrepresentation, one who is guilty of misrepresentation cannot be held liable for remote, contingent, and uncertain consequences or losses or for speculative or possible results which may have ensued from his conduct, though those results may be traceable to that cause.

Thus, the general rule is that one who is guilty of a misrepresentation is responsible for damages to the person to whom the misrepresentation was made, which damages are the natural and probable consequences of the misrepresentation. That is, that damages which are a direct and usual consequence of a misrepresentation are recoverable, irrespective of whether such damages are shown to have been in the contemplation of the parties at the time the misrepresentation was made.

However, losses of an unusual kind that do not directly and foreseeably flow from the misrepresentation can only be recovered where they are shown to have been within the contemplation of the parties at the time misrepresentation was made.

In proving damages for misrepresentation, the Plaintiff must prove by a preponderance of the evidence that the losses claimed by it were in fact sustained and that those losses were sustained as the probable and foreseeable result of the Defendant's misrepresentation.

In addition, before any element of damage may be allowed, the evi-

instructed that it should award Bailey all reasonably foreseeable damages that it could fix with reasonable certainty.[9] No attempt was made to particularize the instructions to his case. The jury was not instructed on the present worth of the contract, it was not told to apportion the $32,400 per year between the patent and Bailey's services, and it received no instruction at all on the cost of living clause. Left without guidance the jury apparently found the value of the patent in 1976, in addition to the one percent royalty, to be $548,000. The magistrate later reduced this figure to $400,000.

Chattem claims that the proof presented to the jury on compensatory damages was insufficient to sustain even this reduced verdict, and we agree. Because California law defined the tort here its law also controls on the measure of damages. Restatement (Second) of Conflict of Laws § 171. Under California law, when damages are measured by the value of a contract to be performed in the future the payments that were to be made under the contract must be reduced to present worth. *Daum v. Yuba Plaza, Inc.*, 11 Cal.App.3d 65, 89 Cal.Rptr. 458, 465 (1970). In this case, if the jury somehow found that the entire $32,400 per year was consideration for assignment of the patent its award could have been no higher than $222,679.

Bailey argues that the jury's award could legitimately be larger than this to take into account future inflation.

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dence must permit the jury to determine that damage with reasonable certainty.
Tr., Volume VII, pp. 932-933.

[9]The blame for the sketchy instructions does not lie solely with the magistrate who tried the case. The parties were singularly unhelpful in providing the court with useful instructions on *any* aspect of the case.

Although much of the fault for the poor instructions rest with Chattem, this case is not appropriate for invocation of Fed.R.Civ.P. 51. Chattem has preserved the question whether the verdict was excessive, it did make some objection below, and the error is quite plain. Thus, Rule 51 does not bar our review. 5a Moore Federal Practice ¶5104 (2d ed. 1976.

However, here the measure of damages was set by a proposed contract and the jury could not assume the payments under the contract would vary unless the contract so provided. Though there was a reference in the evidence to inclusion of a cost of living clause "somehow" tied to 1975 prices, without further definition this term is too vague for the jury to assign any non-arbitrary value to it. "To set a quantifiable damage figure arbitrarily is impermissible." *Agricultural Services Ass'n v. Ferry-Morse Seed Co.*, 551 F.2d 1057, 1072 (6th Cir. 1977).[10] In denying Chattem's motion for new trial the magistrate further attempted to justify the jury's award by stating that it could include a component for lost future royalties. This justification is also foreclosed. Bailey already had a contract entitling him to royalties in the future and could not be damaged in that respect.[11]

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[10]If Bailey succeeds on remand in defining the cost of living clause sufficiently to go to the jury the parties will then face the issue they have argued here: what proof of inflation is necessary before the jury can take it into account. California law controls on the the measure of damages, Restatement (Second) of Conflict of Laws, § 171, *supra*, and in California future inflation may be taken into consideration. *Vesey v. United States*, 626 F.2d 627, 631 (9th Cir. 1980). However, the law of the forum determines the sufficiency of the evidence, so the law of this Circuit dictates the nature of the evidence Bailey will be required to offer to withstand a motion for directed verdict on this issue. Restatement (Second) of Conflict of Laws § 135.

[11]The magistrate justified the verdict for promissory fraud as reduced by the remittitur in part on the basis that the jury's award for defendant's failure to commercialize the patent was only for the three years from the issuance of the patent to the end of Bailey's two-year contract in effect at the time of trial, so the jury could include future lost royalties in the compensatory damages. We are at a loss as to how he reached this conclusion. It is undisputed that there is a one percent royalty agreement. It is this agreement which forms he basis for the failure to commercialize claim. The jury was told to award damages to place Bailey in the position he would have been had the contract been performed, including the implied terms of using best efforts to commercialize the patent. Nowhere is it suggested that they were to award damages for only three years for Chattem's failure to use its best efforts.

Therefore, we can find no basis on which the damages awarded by the jury for promissory fraud (misrepresentation) can be justified. Because of that and because the instructions to the jury were so inadequate on this question we find it necessary to remand for a new trial on the question of compensatory damages only.[12]

FAILURE TO COMMERCIALIZE

Chattem's last argument on appeal is that the evidence was not sufficient to sustain the jury's verdict that Chattem breached an implied contractual duty to use its best efforts to commercialize Bailey's invention. In pertinent part the patent license agreement stated:

> Chattem at present contemplates marketing organo-aluminum compounds for use in the manufacture of unsaturated polyester resin compositions covered by the aforesaid patent application, and in the event Chattem establishes a market for such organo-aluminum compounds for use in such resin compositions, it agrees to pay Bailey one percent of the net sales price on all of Chattem's sales, for the period commencing January 21, 1976, of said organo-aluminum compounds for such resin compositions, covered by any patent to isssue from the aforesaid application, Serial No. 651,814 it being expressly understood that no such payments shall accrue to Bailey for other sales of said organo-aluminum compounds.

It is Chattem's view that this contract language clearly and unambiguously states that Chattem has no *duty* to market Bailey's invention, but if it *chooses* to do so Bailey will receive a one percent royalty on all sales. Chattem contends that because the contract language is clear, the

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[12]As Chattem does not appeal the award of punitive damages, and it is clear that Bailey was entitled to at least *some* compensatory damages, we do not set aside this part of the verdict.

trial court erred in permitting the jury to imply a duty on Chattem's part to use its best efforts to develop the patent.

We quote from a leading treatise of the law of contracts;

> In any commercial agreement in which the compensation promised by one to the other is a percentage of profits or receipts, or is a royalty on goods sold, manufactured, or mined, there will nearly always be found an implied promise of diligent and careful performance in good faith and of forbearance to make performance impossible by going out of business or otherwise.

3 Corbin on Contracts § 568 (1960). This rule of law has been applied with full force to patent license agreements. *Bellows v. E. R. Squibb & Sons, Inc.*, 359 F.Supp. 204 (N.D.Ill.1973); 4 Walker on Patents § 407 (2d Ed. 1965). Under Tennessee law contract terms may be implied in appropriate cases. *Hoskins v. United States*, 299 F.Supp. 1229, 1232 (E.D.Tenn.1969), *aff'd*, 425 F.2d 1301 (6th Cir. 1970). This was such a case, and it was not error to permit the jury to imply a duty of good faith performance on the part of Chattem.

There was evidence to support the jury's verdict. Bailey testified that the lack of commercial success was due to a "cobalt problem." He testified that for some time he was not consulted to work on this problem despite his expertise in the field and although Chattem was having no success in solving it otherwise. He also testified that Chattem seemed to lose interest in pursuing the commercial development of the invention once he filed this lawsuit. Finally, Bailey testified that once he began to work on the cobalt problem himself he was able to solve it in a fairly short time, which implied that Chattem could have done the same had it wished. Although there was also evidence that Chattem expended a great deal of money and effort trying to develop Bailey's invention, the jury was not required to accept this evidence as conclusive on

the issue of Chattem's good faith in light of Bailey's contradictory evidence.

Nor can we find the jury's verdict on this count excessive. There was evidence of a large market for Bailey's invention which Chattem expected to reach with successful commercialization. Chattem's vice-president in charge of the chemical division told Bailey he hoped to realize sales of $4,000,000 per year, a figure that the jury could infer was not simply pulled out of the air but was the result of some market study. If realized, this sales goal would have entitled Bailey to $40,000 per year. Damages where there has been a failure to use reasonable efforts to commercialize are often not susceptible of certain proof, and courts, recognizing this, have required a lesser degree of certainty in such cases. *Story Parchment Co. v. Paterson Parchment Paper Co.*, 282 U.S. 555, 563, 51 S.Ct. 248, 250, 75 L.Ed. 544 (1931); *Stentor Electric Mfg. Co. v. Klaxon Co.*, 115 F.2d 268, 273-274 (3d Cir. 1940), *rev'd on other grounds*, 313 U.S. 487, 61 S.Ct. 1020, 85 L.Ed. 1477 (1941). If the jury believed, as it was entitled to, that Bailey's patent could be made commercially successful, the $27,000 awarded on this count of Bailey's complaint is well within the realm of reason.

For the foregoing reasons the judgment of the District Court is affirmed in part, reversed in part, and remanded for further proceedings consistent with this opinion.